FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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Few accolades for BankAmerica's new chief, Page 21

World news · Business summary

Pretoria accused of border build-up

The war of nerves between South Africa and Mozambique continued after a summit meeting on Sunday of frontline leaders and their security advisers in Maputo.

The summit ended with a communique accusing Pretoria of massing troops on the Zimbabwean and Mozambique border but apparently leaving President Samora Machel of Mozambique to deal with the situation on his own.

Malawi, which did not attend the meeting, was criticised for its alleged complicity with South Africa and for harbouring armed rebels of the Mozambique resistance movement. Page 4

Shamir takes over

Yitzhak Shamir is expected to take over from Shimon Peres as Israeli prime minister today, fulfilling a government rotation most observers thought impossible two years ago. Page 20

Saudi Opec quota

Saudi Arabia indicated it wanted a higher Opec quota for its oil production in calling for a reallocation agreement on output at the Geneva talks, which entered a second week with observers describing agreement as "elusive." Page 3

Nato exercise ends

Members of the Western alliance ended war games in the Aegean, east Mediterranean, which were conducted without Greece because of a dispute with Turkey.

Nobel prize shared

The 1986 Nobel prize for medicine was shared by American Stanley Cohen and Italian American Rita Levi-Montalcini whose work is aimed at increasing understanding of many diseases including cancer.

Peking greets Queen

Britain's Queen Elizabeth was given a colourful official welcome in Peking's Tiananmen Square at the start of a six-day visit to China. Page 4

Seaga threat

The Jamaican Labour Party has rejected Edward Seaga's offer to resign as leader and premier after strong criticism of his economic policies and leadership. Page 6

Dhaka arrests

Authorities detained two key opposition leaders in their houses and arrested at least 30 other senior politicians as students clashed with police in the capital of Dhaka in the closing hours of Bangladesh's disputed presidential elections tomorrow. Page 4

Duarte appeal

San Salvador President Jose Napoleon Duarte appealed to civil servants to return to their offices three days after an earthquake which he said killed at least 890 people and left up to 200,000 homeless. Page 6

Pasok loses votes

Greece's ruling socialist Pasok Party experienced heavy losses in municipal elections at the weekend. The results of local elections in three main cities will be decided on Sunday. Page 3

Rush to enter UK

Chaos reigned at London's Heathrow airport as hundreds of passengers from the Indian sub-continent rushed to beat the deadline on the introduction of visas to enter Britain.

Iran shells Basra

Iran started shelling the Iraqi port of Basra from long range at noon and said it would continue for two days in retaliation for Iraqi air raids on Shiraz and Isfahan.

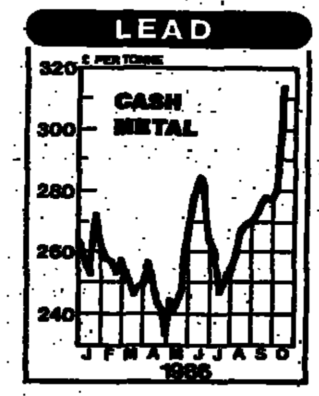
Chirac says inflation must fall

JACQUES CHIRAC, French Prime Minister appeared to signal a new tightening of economic policy in France by saying the country must get its level of inflation down to that of West Germany. Page 20

WALL STREET: The Dow Jones industrial average closed 5.20 up at 1,798.37. Page 44

LONDON markets were affected by holidays on both sides of the Atlantic and sterling's dull performance. Turnover in both gilts and equities was below par and the FT Ordinary share index gained 12.9 to 1,612.3. Page 44

TOKYO saw investors retreating to the sidelines and prices tumbled almost across the board, with the Nikkei average dropping 311.50 to close at 17,338.73. Page 44



LEAD gained £9 on the London Metal Exchange to £314.50 a tonne, a 17-month high, after gaining nearly £30 last week. The market was underpinned by the possibility of a resumed strike at Australia's Broken Hill Mines. Page 36

DOLLAR fell in London to DM 1.9785 (DM 1.9865); SFr 1.6140 (SFr 1.6180); FFr 6.4850 (FFr 6.5075), and Y154.25 (Y154.40). On Bank of England figures the dollar's index fell to 109.0 from 109.2. Page 37

STERLING rose in London to $1.4345 ($1.4335). It fell to DM 2.8378 (DM 2.8475); SFr 2.3150 (SFr 2.3200); FFr 9.3025 (FFr 9.3300), and Y221.25 (Y221.50). The pound's exchange rate index fell 0.1 to 67.5. Page 37

GOLD rose $0.625 to $432.25 on the London bullion market. It also rose in Zurich to $432.625 from $431.625. Page 36

PEUGEOT TALBOT, UK subsidiary of French car maker Peugeot, announced £20m ($28m) plans to assemble a new car, creating about 1,000 new jobs at its plant in the English Midlands. Page 13

NIGERIA has negotiated in principle a $250m bridging loan from Western governments and central banks to fund its foreign exchange weekly auction. Page 20

JAPAN reported a record monthly trade surplus of $8.9bn for September, and the trend suggested greater surpluses to come.

PETER THAM, former director of the collapsed Singapore company Pan-Electric Industries, pleaded guilty to 18 charges of forging share transfer forms.

IMASCO, financial services, fast food, tobacco and retailing group, has sold five US construction materials plants to Domtar of Montreal for US$241m or C$335m. Page 21

IGGESUND, Swedish forest products company, is to raise SKr 300m ($44m) in new equity capital through a one for four rights issue. Page 24

PFIZER, US pharmaceuticals and health care group, was helped by the weakness of the US dollar in showing gains of 15 per cent in world sales and 14 per cent in net income for the third quarter. Page 21

CAMPEAU, Canadian property developer, has received more than two-thirds of Allied Stores' shares in the $66 a share tender offer for the big US stores group. Page 21

PEOPLE EXPRESS, troubled cut-price US airline, expects to report a "substantial" loss in the third quarter. Page 21

Mitterrand signals reluctance to stand for second term in 1988

BY PAUL BETTS IN PARIS

PRESIDENT François Mitterrand of France yesterday announced unexpectedly that he did not want to stand for a second seven-year presidential term when his mandate runs out in 1988. But he carefully left the way open for a change of mind if he is persuaded during the next 17 months that it would be a mistake not to run for a second term.

President Mitterrand was speaking after a visit to a military camp at Caylus in south-west France. Asked about his intentions for the 1988 elections, he said: "Each time I think about the problem, everything leads me to think I will not be a candidate." He added that he was not so ambitious as to want "to stay forever in this function."

However, he said he had time to change his mind if he were to be convinced that it would be a mistake not to seek a second mandate.

Mr Mitterrand, whose ratings in public opinion polls have been rising during the last months of political cohabitation with the right-wing government of Mr Jacques Chirac, has long been seen as the best candidate for the Socialists to field in the next presidential elections. Mr Jacques Chirac, the prime minister and leader of the neo-Gaullist RPR, is currently the favourite right-wing candidate for the presidency in 1988, although he is expected to be challenged by Mr Raymond Barre, the former prime minister under President Giscard d'Estaing.

President Mitterrand has in the past suggested that he would not seek a second term in 1988, when he will have reached the age of 72. By his ambiguous announcement yesterday, he may be seeking to prepare the succession in the Socialist Party in time for the next presidential polls.

A succession battle has already begun inside the party, though. Mr Michel Rocard, the former agriculture minister, has already indicated he intends to put himself forward again as a candidate, while several other younger Socialist leaders including Mr Lionel Jospin, the first secretary, and Mr Laurent Fabius, the former prime minister, also have undisguised presidential ambitions.

In an effort both to reaffirm his position as first secretary and to prepare the party for the next presidential elections, Mr Jospin announced at the weekend plans to advance the date of the next Socialist Party congress, which is now expected to be held at the beginning of next year.

Mr Mitterrand's announcement was being seen by some observers last night as a political ploy by the President to reinforce his eventual chances in the next elections. His Socialist supporters are expected to urge him strongly to stand again as a candidate. On several occasions in recent months, a number of Socialist leaders have said that Mr Mitterrand represented the best and perhaps only chance for the left to hold on to the presidency.

Pressure from his own party might prompt Mr Mitterrand to stand again. In any event, he is likely to seek to keep up the suspense until the end for best political effect before the poll. Political commentators last night recalled that one of the biggest errors President Giscard made was to have made it obvious so long before the 1981 elections, won by Mr Mitterrand, that he wanted a second term.

Car market stages recovery, Page 2; Chirac tightens economic policy, Page 20

President François Mitterrand

Reagan attempts to rally public behind Star Wars stance

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

PRESIDENT Ronald Reagan was yesterday facing a major challenge of rallying US public opinion behind his decision to refuse to trade his Strategic Defence Initiative (Star Wars) for potentially sweeping arms control agreements.

Mr Reagan was last night preparing to make a nationwide television address from the Oval Office at the White House in which he was expected to defend his decision in Reykjavik in the face of criticism that he has allowed himself to be outmanoeuvred by Moscow.

The Reykjavik outcome seems likely to have strengthened the hand of those in the US Administration who oppose arms control arrangements.

Some in Washington fear that the White House may take a hard line and that, with domestic political considerations uppermost in his mind, Mr Reagan will emphasise the importance of not putting SDI at risk, a stance which could run the risk of deepening divisions within the North Atlantic alliance and make it easier for Moscow to launch a propaganda offensive in Europe.

Senior Administration officials who had been in Reykjavik, however, were saying that the US made extraordinary progress towards reaching agreement with the Soviet Union on a wide range of arms control issues. At the end, they said the two sides were so close that it would be possible for the Reagan Administration to revive the talks even though Mr Reagan has now only a little more than two years before leaving office.

Admiral John Poindexter, the President's national security adviser, when asked yesterday why the Administration believed Moscow might return to the arms control bargaining table, said that the Soviet Union in the past had broken off negotiations and subsequently come back to the table. This was an apparent reference to Moscow's decision in 1983 to break off talks on intermediate nuclear missiles in Europe.

Admiral Poindexter conceded that his comments represented a shift in the Administration's position compared with the aftermath of the breakdown. US officials suggested that the chances of a summit meeting and an early revival of the arms talks were bleak. Mr Poindexter said that the initial White House reaction reflected tiredness.

The shift in the US stance appears to be aimed at trying to move the responsibility for the summit breakdown on to Moscow to foster the impression that Washington is ready and eager to reach an arms control agreement.

Asked what Mr Reagan would tell the American people, Admiral Poindexter said that the President wanted to make clear what he had proposed to Mr Gorbachev, what the proposals would have meant in terms of creating a safer world, and why the controversial Strategic Defence Initiative (SDI) system was essential.

He conceded, however, that in proposing continued adherence to the 1972 anti-ballistic missile (ABM) treaty for 10 years provided Moscow agreed to drastic cuts in nuclear missiles, Washington had in effect suggested that it was the broad interpretation of the sort of research on strategic defences allowed under the ABM treaty which the US was suggesting.

But it is accepted that only the President himself can get the talks back on track and some observers doubt that the staff within the White House about how to approach Moscow will allow him to take such an initiative.

Opinions are divided over whether the President will suffer politically in the wake of the Reykjavik meeting which most of the US media branded a failure. However, it seems likely that at least initially the country will rally behind a popular President who, as the White House tells it refused to cave in to Soviet pressure to give up a defensive shield against nuclear weapons which could make the whole world safer.

There is more widespread agreement, however, that Mr George Shultz, the US Secretary of State, and those around him who have been pressing for arms control agreements have suffered politically. This will tend to strengthen the hand of opponents of arms control such as Mr Caspar Weinberger the Defence Secretary, and Mr Richard Perle, his assistant secretary for international security affairs.

One result being confidently predicted is a continuing fierce battle over the future of the SDI programme.

Funding for SDI has already been cut well below what the White House wanted.

After the summit, Page 4; Editorial comment, Page 18; Crisis, but not a disaster, Page 19

Reagan briefs Thatcher on summit

By John Hunt in London

PRESIDENT Ronald Reagan last night telephoned Mrs Margaret Thatcher, the UK Prime Minister, to give the US view on the reason for the failure to reach agreement on arms control with Mr Mikhail Gorbachev, the Soviet leader.

The call came as intense diplomatic efforts began between the two superpowers to win over public opinion in Britain and other Western European countries.

His 20-minute briefing of Mrs Thatcher came soon after the news that Mr Viktor Karpov, the Soviet Union's chief arms negotiator, would meet Mrs Thatcher in London today when he will put the Russian case for the breakdown of the talks.

Mr Karpov's visit, which came as a surprise, is being treated with caution by the UK Government. There are fears that it is part of a concerted Soviet public relations campaign throughout Western Europe to drive a wedge between the US and its Nato allies following the meeting in Iceland.

A top Soviet diplomat, Mr Alexander Bessmertnykh, the Vice-Minister of Foreign Affairs, is also to visit Mr François Mitterrand, the French President, on a mission similar to that being undertaken by Mr Karpov.

Mrs Thatcher will make it clear to Mr Karpov that the British Government is firmly behind President Reagan's determination to pursue the Strategic Defence Initiative (Star Wars) the issue which was the stumbling block at Reykjavik.

But she will also emphasise the need for Russia and the US to press on with attempts to organise a further summit later this year.

No details were given of the con-

Continued on Page 20

Europe's Nato members urge further talks

BY QUENTIN PEEL IN BRUSSELS

EUROPEAN members of the Nato alliance yesterday stifled their disappointment at the lack of agreement on arms control at the summit meeting between President Ronald Reagan and Mr Mikhail Gorbachev, and called for an urgent resumption of the Geneva negotiations between the US and Soviet Union.

Foreign ministers from the European arm of the alliance were briefed in Brussels on the outcome of the Reykjavik talks by Mr George Shultz, the US Secretary of State, who insisted that they had not been a failure just because there was no final deal.

There was clearly some disappointment among the Europeans at the failure of the superpower leaders to reach a conclusion on limiting intermediate-range nuclear missiles (INF) because of their disagreement on the US Strategic Defence Initiative (SDI), the so-called Star Wars programme for a space-based defence system.

At the same time, however, they were for the most part pleasantly surprised at the progress made in the INF negotiations, including the proposal for a complete withdrawal of such missiles from Europe – the so-called "zero option."

There was no outright criticism in the emergency meeting of the Nato Council over Mr Reagan's refusal to back down on the Soviet demand to restrict his SDI programme to laboratory testing only, and this reflected a desire within the alliance to present a reasonably united front.

The main stress placed by several Nato member states was on the need to keep on the negotiating table the progress achieved in Reykjavik on the parallel issues of nuclear testing, intermediate-range weapons, and ballistic missiles.

Mr Hans-Dietrich Genscher, the West German Foreign Minister, stressed the need for a rapid return to negotiations in Geneva, and for the Soviet Union to clarify whether it was prepared to agree on an INF deal separately from the other issues.

Mr Timothy Renton, British Minister of State at the Foreign Office, said he believed that the Soviet Union had "moved the goalposts" in the talks by insisting once again that any arms control deal must be a package deal including all elements.

That was one area where Mr Shultz left his European allies with differing interpretations of the outcome, the area which is for them most politically sensitive.

Mr Shultz spelt out the sticking point for President Reagan in the talks as being Mr Gorbachev's determination to gain a "radical change" in the Anti-Ballistic Missile (ABM) treaty, which would restrict the SDI research programme to the laboratory.

Instead, President Reagan had been prepared to make a major concession "in agreeing to non-withdrawal from the ABM treaty for 10 years, linked to a programme of reducing to zero at the end of the 10 years offensive ballistic missiles," Mr Shultz said.

Mr Renton agreed after the talks that "not all European allies put as much importance on the development of strategic defence as do the Americans." However, he sought to stress the progress in Reykjavik on the other issues.

"This is an interval between two acts in the play," he said. "It is not the end of the play. I hope it will be a short interval, and that the parties involved will take up the next act in Geneva very shortly."

IBM suffers 27% downturn as net income falls to $1.08bn

BY DAVID BLACKWELL AND RODERICK ORAM IN NEW YORK

IBM, the world's leading computer manufacturer, suffered a 27 per cent profits downturn in the third quarter, reflecting weak capital spending by its customers and a softening of demand outside the US.

IBM had already prepared Wall Street for the poor results, saying last week that overseas sales were "beginning to moderate." Analysts hastily marked down profit forecasts for the group, sending the share price tumbling by 10 per cent in the last three days of trading before the weekend.

The deterioration in the group's performance accelerated in the quarter when net profits fell to $1.08bn compared with a decline of 12.3 per cent for the nine months ended September from $3.57bn to $3.4bn.

Sales were slightly ahead for the quarter at $11.91bn compared with $11.7bn, and for the nine months $34.31bn against $32.9bn.

The shares rallied briefly by more than $1 when the results turned out broadly in line with the revised estimates. But they soon fell back, closing $1⅛ lower at $122.

The stock, the largest in market capitalisation terms on the New York Stock Exchange, may face a stiffer test tomorrow. Wall Street was virtually deserted yesterday because of public and religious holidays. Trading was at the lowest level in almost two years.

Analysts see little hope for improvement in IBM's performance before the second half of next year. They expect this year's profits to be about $9.40 a share compared with $10.67 in 1985 and $10.77 in 1984.

At the nine-month stage per share earnings stand at $5.53 a share, against $6.31 last year and, for the quarter, $1.76 against $2.40.

Mr John Akers, the chairman, said yesterday that worldwide orders and shipments were below the levels of last year's nine months. "Growth in our world trade operations has begun to moderate and we have yet to see a turn in the weak North American business environment we have experienced in the last year and a half."

The industry's bleak outlook was endorsed by Mr Charles Exley, chairman of NCR, one of IBM's competitors. Reporting a smaller than expected increase in profits yesterday, he said: "We see no signs of a general recovery as yet."

Reflecting the way its business is changing, IBM's revenues from rentals plunged 34.8 per cent in the quarter to $626m, and in the nine months by a similar amount to $2.12bn. In contrast, the services sector showed 20.5 per cent growth in the quarter and 25.9 per cent growth at nine months, with revenues of $3.56bn and $10.17bn respectively.

Revenues from the sale of machines eased in the quarter to $7.73bn from $7.76bn, although they edged ahead for the nine months to $22.02bn.

Mr Akers said that currency rates had a positive effect on the results. The group estimated that the lower value of the dollar this year, compared with 1985 rates, lifted nine-month revenues by $3.11bn, and net earnings by $470m.

The group remains confident about the long-term growth of the information industry and IBM's participation.

CONTENTS

French car market stages recovery

By Paul Betts in Paris

THE RECOVERY of the French domestic car market was confirmed last month with a further rise of 11.6 per cent in new registrations compared with September 1985.

New registrations have increased by 5.3 per cent so far this year, compared with the depressed levels of last year.

For the first nine months of this year, registrations totalled 1,364,409 new cars compared with 1,289,895 cars during the same period last year.

The French car makers now expect new registrations to total between 1.88m-1.9m new cars for the whole of this year or between 6.5 per cent-7.5 per cent more than the 1.77m registrations last year.

However, foreign importers continue to hold the biggest share of the domestic French car market with 37.5 per cent in the first nine months

Soviet output up

Soviet industrial production rose 5.6 per cent in September compared with a year earlier, largely because of increased productivity under the efficiency drive instigated by Mr Mikhail Gorbachev, the Soviet leader, Tass news agency said, Reuter reports.

Kohl seems to have set the seal on an idea whose time has come, Peter Bruce reports

Germans lay claim to new respectability

HELMUT KOHL has been doing it for years but it still makes liberal Germans cringe.

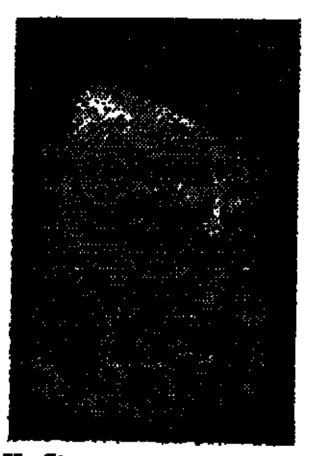
At the end of his two-hour keynote speech to his party congress in Mainz last week he added a final sentence to the prepared text. "Germany, our Fatherland, needs our energy, our faith and our courage. Let us do our duty."

Fifty years ago, words like those from a German Chancellor may have struck fear into the hearts of many Europeans. Since 1945, West Germans have been allowed to take a place back in the civilised world but only at a price—constant apology for what happened.

Germans saying or doing things that other nations do without thinking are judged as a people apart, not least by Israel.

But last week, Chancellor Kohl, who is almost certain to be voted back into office in January next year, seemed to set the seal on a movement and an idea whose time has finally come—that it is respectable to be proud of being a conservative, even patriotic German, to talk without guilt of *Vaterland* or *Heimat* (homeland), to claim them as symbols of a German history going back centuries and not merely of a time when the country admittedly went mad.

Mr Kohl constantly reminds the world that he was 15 when World War II ended. A less determined man would have buckled last year when it turned out that a German war cemetery he and Ronald Reagan planned to visit contained the graves of SS troops.



Mr Strauss: cannot live with outlawed history

Mr Kohl insisted the visit go ahead, arguing that there were German soldiers lying at Bitburg, many recruited as children too young to have any idea about what a Swastika meant. The inference was that they needed to be honoured and, amazingly, they were.

Luckily, probably, for Mr Kohl, the sheer scale of his deed at Bitburg was overshadowed by a widely-acclaimed speech marking the 40th anniversary of the end of World War II by President Richard von Weizsäcker which, though it argued that wartime guilt had to be individual, said it was obvious that most Germans knew what was being done in their name by the Nazis to the Jews.

It is not a speech Mr Kohl would have made but it cleansed the air a lot.

While Mr Kohl has been giving vent to relatively provincial gut feelings, a parallel intellectual movement has flourished, emboldened by his political successes.

Revisionist academics unleashed furious argument this summer by suggesting first that the German forces overrun on the Eastern front by advancing Russian troops during the war were heroic figures.

To critics who said the defence of the Front prolonged the holocaust, historian Andreas Hillgruber retorted that they would then have to agree that the subsequent division of Germany was a good thing.

Another historian, Ernst Nolte, wrote an article suggesting that, with the exception of gassing, Nazi crimes were not unique, that Stalin had in fact practised mass killings of his perceived enemies, and that Hitler did the same thing because he thought the Nazis faced a similar threat from the Jews.

Then, one of the publishers of Germany's most respected daily, the *Frankfurter Allgemeine Zeitung*, Mr Joachim Fest, argued, illustrated by a mountain of Cambodian skulls, that Hitler's murders were similar to Stalin's.

Mr Kohl: provincial gut feelings

Recalling with horror the pictures of Jewish dead in concentration camps, Fest implores: "But what entitles us to assume that there were not similar scenes in the murder factories of the Stalin era?"

The attacks on these articles are unlikely to make the revisionists go away.

The conservative Bavarian leader, Mr Franz Josef Strauss, warned last year that "no nation can live with an outlawed history in the long run."

In Baden-Wuerttemberg, a row broke out earlier this year when the local education minister suggested children be once again taught the first verse of the *Deutschland Lied*, the national anthem which contains the words "Deutschland, Deutschland über alles" and which was banned after the war in favour of the milder third verse.

The minister, though under liberal attack, still has his job and the verse will soon be taught though not sung.

More recently, the Government's success in stemming the flow of Third World refugees into the country, despite predictable cries of racism is another victory over Nazi guilt.

The fact that it was done urgently to head off growing hostility to dark-skinned people has not been confronted so bravely, though.

Neither was Mr Hermann Fellner, an MP from Bavaria. When Jewish groups demanded compensation for slave labour from the Flick group before it was sold off last year, he was heard to remark that "Jews quickly speak out when money jingles somewhere in German tills."

Mr Fellner got away with making a reluctant public apology and he is now something of a cult figure.

Weizsäcker begins visit to Hungary

BY LESLIE COLITT IN BERLIN

PRESIDENT Richard von Weizsäcker of West Germany began a four-day official visit to Hungary yesterday, the first such visit by a West German head of state.

West Germany's political and economic relations with Hungary are closer than with any other Warsaw Pact country. More than 58 per cent of Hungary's trade with the EEC and 9.6 per cent of its total trade is conducted with West Germany which is Hungary's second largest trading partner after the Soviet Union.

Bonn has promised to support Budapest's efforts to get the EEC to eliminate its quotas for Hungarian agricultural exports.

Mr von Weizsäcker will have talks today with Mr Janos Kadar, Hungary's leader.

West German officials said an agreement was ready for signing with Hungary which would permit West Germany to set up an official Goethe Institute cultural centre in Budapest. They noted, however, that it was still uncertain whether a signing would be possible during Mr von Weizsäcker's visit.

The issue is a highly political one and until now East Germany has exclusively represented German cultural interests in all Warsaw Pact countries except Romania, which has long followed an independent line.

Bullish backing for video telephones

BY JANE RIPPETEAU IN VIENNA

THE ADVANCED telecommunications concept known as the integrated services digital network (ISDN)—meaning the simultaneous transmission of voice, data and eventually full motion video over the public telephone system—got a bullish endorsement from industry specialists at an international conference in Vienna this week.

But a number of executives seriously questioned how fast ISDN will evolve because of high costs, insufficient standardisation and unclear market demand.

"Many countries still just need plain old telephone service," said Mr Alain le Bihan, director of marketing for public network systems at Alcatel, the French telecommunications equipment maker.

But he emphasised it is no longer possible to sell large switching equipment to customers anywhere that does not "give the assurance that it can be upgraded for ISDN later."

A number of limited ISDN installations are already scheduled for 1987 in industrialised countries, including France, the US and West Germany.

One researcher predicted that market pull will accelerate within a year, and will spur purchases of telecommunications equipment and services worth $2.6bn (£1.8bn) by 1990 on top of normal expenditures.

In making the prediction, Mr Victor Kruger, vice-president of Dataquest of California, the conference sponsor, said he believed 3m out of a total 140m subscriber telephone lines in the US will have access to ISDN by the early 1990s.

Still, defining what services people will want and how much they will pay to get them is a big problem right now, executives said.

For one thing, some services that ISDN would make possible are already available in other forms — such as videotext, which offers home banking.

Other exciting services—such as delivery of television quality video over the 'phone — are not possible without higher capacity transmission lines, such as optical fibre.

Replacement of old copper wires with optical fibre is happening in some locations, but the whole idea of ISDN is to use the existing networks of copper lines already in the ground.

The point is to get more out of those wires by capitalising on the speed and flexibility of digital transmission.

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EUROPEAN NEWS

Saudis seen to back higher Opec quota call

BY RICHARD JOHNS IN GENEVA

THE ORGANISATION of Petroleum Exporting Countries yesterday began its first full ministerial discussion on proposals for the redistribution of output quotas on the eighth day of its conference in Geneva.

Saudi Arabia was expected to come out more openly in support of Kuwait's insistence on a new deal before agreeing to an extension of the current interim pact on production-sharing, limiting the total to about 16.8m b/d which expires at the end of October.

The Council of Ministers in Riyadh was scheduled to issue a statement last night, according to a prominent Saudi, aimed at bolstering the position of Sheikh Ahmed Zaki Yamani, the kingdom's Oil Minister, for what could prove to be a bruising struggle over the next few days but one likely to result in a continuation of the present accord, albeit in a revised form.

On Sunday, the Kuwaiti Cabinet issued a communiqué stressing "the importance of re-allocating the output quotas as of next November 1 as stipulated in Kuwait's main conditions for approving the previous agreement."

Iran let it be known that its attack on Iraqi oil installations at Kirkuk last week was prompted by the Kuwaiti stance at Opec.

Iran's delegation was not alone in suggesting privately that Saudi Arabia has been using Kuwait as a stalking horse in a campaign of Gulf producers to obtain a bigger share of Opec output under a new arrangement applicable from the start of 1987.

Various "parameters" were submitted to the ministerial conference. They were understood to have been such as to give Saudi Arabia anything from 30-35 per cent of total Opec production deemed possible in relation to any given price objective at any given time, and Kuwait 8.5-12 per cent.

That compares with shares of 27.2 per cent and 5.8 per cent under the formula somewhat arbitrarily adopted in March 1983, when a division under a ceiling of 17.5m b/d was adopted.

That ratio was retained when the limit of 16m b/d was adopted in October 1984 and again in August when the present pact set it at about 16.8m b/d (Iraq having been exempted from any quota) for September and October.

Whatever the differences, the arrange of "scientific" criteria submitted look very good from the point of view of Saudi Arabia, Kuwait and—eventually when its conflict with Iran ends—Iraq.

Saudi Arabia and Kuwait achieved something of a negotiating triumph, given their disproportionate share of world reserves and very small indigenous populations.

Pasok pins election hopes on pact with Communists

BY ANDRIANA IERODIACONOU IN ATHENS

GREECE'S governing socialist party (Pasok) was pinning its hopes yesterday on a tactical alliance with the opposition Communists to block the right from capturing the major cities of Athens, Piraeus and Salonika in run-off elections for mayors and city councillors at the end of this week.

In Sunday's voting, Pasok suffered a sharp drop in popularity compared to general elections 16 months ago.

In the three cities Socialist-supported candidates will be pitted against candidates backed by the conservative New Democracy (ND) party, with the balance of votes mainly in the hands of the pro-Moscow Communists (KKE) and Euro-communists (KK-es).

Political observers speculated yesterday that the Communist opposition might seek to extract a reform of the existing electoral system which favours larger parties, for which they have long fought, in exchange for their support on October 19.

Sunday's vote showed a dramatic swing in voter support, in town and countryside, away from the socialists in favour of both ND and the Communists.

The socialists' poor performance is attributed mainly to the economic austerity policy, including a two-year wage freeze, adopted by the Government one year ago.

ND's success is expected to secure Mr Constantine Mitsotakis' position as leader of the party. He has been fending off internal challenges ever since the conservatives' second defeat in a row to the Socialists in the June 1985 general elections.

With most of the results counted, Mr Dimitris Beis, the Socialist incumbent in Athens, scored 29.2 per cent, about 10 per cent lower than Pasok's total in the June 1985 elections, against 44.62 per cent for Mr Miltiades Evert, the ND candidate. The KKE scored 17.65 per cent, about 7 per cent higher than in 1985.

In Salonika, the conservative candidate scored 45.72 per cent against 44.5 per cent in 1985, while the Pasok outgoing mayor achieved just 28.11 per cent compared to 42.65 per cent in 1985.

A joint Communist candidate scored 23.29 per cent compared to 12 per cent in 1985. In Piraeus, the Pasok incumbent scored 32.35 per cent against 44.73 per cent in the general election, while the ND candidate achieved 41.65 per cent.

EEC delays nominating IMF candidate

By William Dawkins in Luxembourg

EEC Finance Ministers had by last night failed to agree on a European candidate to succeed Mr Jacques de la Rosière as Director General of the International Monetary Fund (IMF).

The need to find a new head for the IMF, traditionally a European, follows Mr de la Rosière's announcement last month that he plans to retire from the Washington-based body at the end of the year to return to his native France.

The two official candidates for the job are Mr Onno Ruding, the Dutch Finance Minister, who has appeared to lead the running, and Mr Michael Camdessus, Governor of the Bank of France.

However, the Finance Ministers' meeting ended yesterday with no sign of a consensus on the succession. France has been campaigning vigorously to exchange Mr de la Rosière for Mr Camdessus as IMF chief, while Britain is backing Mr Ruding, who is known to take a tough attitude to budget discipline.

Other leading EEC countries had still failed by yesterday to put forward their own candidates, leaving the way open for Mr Ruding and Mr Camdessus' supporters to mount vigorous lobbying campaigns.

Swiss permits

The Swiss Government is to increase the number of temporary work permits granted to foreigners in an attempt to deal with severe shortages of skilled personnel, particularly in the computer sector, it said yesterday, Reuter reports.

Some 5,000 people will be granted a six-month permit in the year starting November 1, a quarter more than last year. There are about 950,000 foreigners living in Switzerland.

Paris security move

Fears of new bombings by Middle East extremists have prompted Paris fashion designers to increase security for the spring/summer ready-to-wear fashion previews beginning near the Louvre tomorrow, Reuter reports from Paris.

The extremist groups that claimed responsibility have threatened more bombings and police consider the Louvre a potential target.

Bonn clampdown

The West German Government yesterday announced emergency plans to step up security in Bonn following the shooting of a senior Foreign Ministry official Mr Gerold von Braunmuehl, by Red Army Faction (RAF) urban guerrillas, Reuter reports from Bonn.

A Government spokesman said top civil servants and security advisers had met to discuss the implications of Friday's killing, the first murder of a senior political official by the Faction and their first attack in the capital.

Lamb protest

French farmers, angry at a rise in cheap imports, yesterday seized a truck carrying British lamb and dumped the carcasses in the central square of Lyon, Reuter reports

Police arrested some of the 50 protesters who piled 12 tonnes of meat in the Place Bellecour.

A number of violent protests have been carried out in the past two weeks by French sheep farmers against a 20 per cent rise in imports of live sheep and mutton this year compared with 1985.

Swedish unions step up strike action

BY SARA WEBB, STOCKHOLM CORRESPONDENT

SWEDISH public sector trade unions are intensifying their strike action in what is rapidly becoming one of the worst labour disputes the country has seen.

Trade and industry are starting to feel the effects of the two-week-long public sector strike and overtime ban.

Crane operators in Gothenburg, the largest harbour in Scandinavia, joined the strike yesterday. Over 500 crane operators are now on strike.

Gothenburg handles 26 per cent of Sweden's imports and exports, and the latest industrial action could cut activity in the port by as much as 90 per cent.

If the planned strike action by 300 ship pilots goes ahead from midnight tonight, commercial oil and petroleum stocks will last "only a few days," according to Mr Tommy Nordin, head of the Swedish Petroleum Institute.

The oil industry is urgently seeking dispensation from the strike. In a letter to Mr Ingvar Carlsson, the Swedish Prime Minister, Mr Nordin said that industrial action by the pilots would be "the ultimate strike," bringing the country to its knees in a matter of days.

Sweden's "compulsory reserves," which amount to 2.5m tons of petroleum and 10m tons of fuel oil, are only supposed by law to be used in times of a national crisis. Whether the strike would count as such a crisis is not clear.

There is no sign of new negotiations opening up between the unions (which represent 1.5m public sector workers), the mediating commission, and the state and local authority employers.

From today, there will be around 23,000 workers on strike, and about 6,000 locked out by the employers, while about 800,000 are working to rule with a ban on overtime.

Austria set to liberalise exchange curbs

By Patrick Blum in Vienna

AUSTRIA will liberalise its exchange controls from November 1 with the introduction of a series of measures which will make it easier for borrowers to raise foreign currency loans for trade and for investment in Austria, Mr Thomas Lachs, a director of the Austrian National Bank, said yesterday.

Austrian tourists will also be able to take more money abroad. The National Bank is effectively lifting all restrictions on what Austrians can spend abroad for tourism.

The limit of currency that can be changed without the National Bank being informed will be raised to Sch 50,000 from the current Sch 26,000. The amount Austrians can take abroad in schilling notes will be raised from Sch 15,000 to Sch 50,000.

The measures are designed to meet suggestions by the Organisation for Economic Co-operation and Development (OECD), Mr Lachs said.
in Austria's financial system

Austria has been protective of its hard currency policy, and the National Bank has been opposed to the creation of a Euro-Schilling which could be prey to market speculation.

IG Metall attacks employers over jobs

BY ANDREW FISHER IN FRANKFURT

IG METALL, the largest trade union in West Germany, has strongly attacked claims by employers in the metalworking industry that production is being held up by a shortage of skilled labour.

It accused employers of trying to shift responsibility for unemployment onto the unempolyed and of trying to "disguise their unreadiness" to take on more workers.

Gesamtmetall, the metalworking industry employers' association, said a month ago that over half of the companies in the sector would be short of skilled labour by the year-end. Cars, engineering and electrical products all belong to this sector, the country's largest.

IG Metall, which has 2.5m members, argued that there was no such thing as a shortage of skilled workers. "Workers in 1986 are better qualified than ever." Lack of properly-qualified employees "is not a genuine problem for factories."

The strong difference of opinion between the employers and IG Metall comes as the debate about shorter working hours is about to resume, as both sides prepare for new negotiations early in 1987.

While employers say shorter hours would inhibit output even more—they want to be able to operate more flexible shifts on modern, computerised equipment, but not to cut overall hours—the union still favours a 35-hour week.

A seven-week strike in 1984 ended in a compromise reduction of the working week from 40 hours to 38.5. But this agreement is now running out.

IG Metall said that companies had failed in the past to train enough workers themselves. It accused them of trying to obtain more Government funds for further training by making strong complaints of a skill shortage.

In its study on the problem, Gesamtmetall stated that the main reason for the shortage was the effect of the sharp rise in investment after 1983, as profits rose, combined with the rapid introduction of new technologies under the pressures of foreign competition.

Romanians press on with urban renewal

SCARCELY a neon light shines on the neo-classical buildings of the Romanian capital, Bucharest, these days. Cafes close early and street lamps are dimmed to save energy, Reuter reports from Bucharest.

But the city burns a midnight oil of its own. Thousands of workers and conscripts labour round the clock in a rush to build a sparkling new capital by 1990.

Mr Nicolae Ceausescu, Romania's leader, has made this a decade of urban renewal, hoping to mark his epoch for posterity with a series of modern urban landmarks. His centrepiece is an ambitious plan to revive Bucharest as one of the brightest capitals of south-east Europe.

Romanians are already making big sacrifices for their economy, which is marked by austerity and a strategy of wiping out foreign debts over the next two years.

Yet Mr Ceausescu, who became head of the ruling Communist Party 22 years ago, is pressing on with costly projects abandoned in the 1950s and now revived.

The most ambitious, a canal shortening the River Danube's course to the Black Sea, was finished two years ago.

The current buzzing and hammering through the night in Bucharest is from work on a 60km radial underground rail network and on a grand new boulevard with a large civic centre.

Bucharest's 2.2m population, already strained by severe shortages of consumer goods, food, coffee and energy, endure the din of construction and tread carefully through mud, water and rubble as the tunnelling and building goes on.

Traffic is diverted through a confusing maze of small one-way streets.

Romanian officials justified the upheaval for the underground railway, pointing to a four-fold increase in the city's population since the Second World War. There are now restrictions on migration to Bucharest.

Romania has incurred criticism from abroad for destroying historical churches and buildings to clear the way for changes. But Romanian officials said the demolished buildings were unsafe and had to be pulled down because of damage from an earthquake in 1977. Those worth saving have been moved where possible, they said.

Work is also under way on a 72km canal from the Danube to Bucharest and a port is to be built. Mr Ceausescu said recently that Tirgoviste, a town of 85,000 people south-east of Bucharest, was being considered by the party as a "second capital" of Romania.

Norway shows NKr 20bn current account deficit

Norway's current account, stricken by low oil prices, showed a NKr 28bn (£1.8bn) deficit for the first seven months of 1986, the Central Bureau of Statistics said yesterday, Reuter reports from Oslo.

The January 1-July 31 deficit reversed a NKr 19.3bn balance of payments surplus for the same period last year, it added.

Government officials blamed the growing deficit on reduced earnings from the 900,000 barrels of North Sea oil Norway produces daily, and on deterioration of traditional export industries.

Oil and gas revenues fell by 36 per cent to NKr 31.7bn compared with NKr 50bn for the first seven months of 1985.

Since November, a worldwide oil glut has pushed prices down from $30 to about $14 a barrel.

REYKJAVIK REACTIONS

US divided over collapse of negotiations

BY LIONEL BARBER IN WASHINGTON

REACTION IN the US to the inconclusive arms control meeting was divided yesterday.

President Reagan's supporters rallied round, praising him for refusing to curb the Strategic Defence Initiative, popularly known as Star Wars, the space-based missile defence system.

But prominent democrats, with an eye to next month's Senate and Congressional elections, criticised Mr Reagan for allowing his support for SDI to override the possibility of deep cuts in the Soviet nuclear arsenal.

In the US press, which will play a key role in shaping public opinion in the coming days, reaction was gloomy with headlines and commentary using words such as collapse, stalemate and derailment to describe the result of the Reykjavik meeting.

Criticism was also emerging about the way the President had allowed his talks with Mr Mikhail Gorbachev, the Soviet leader, to turn into a freewheeling bargaining session in which the largest arms control issue was suddenly on the table in an all-or-nothing package.

In an editorial headlined Cold in Iceland, the Washington Post said the President would probably have done better to have stuck to a more modest meeting devoted to making plans for a later, more ambitious summit. "He accepted Mr Gorbachev's chancy invitation to high stakes poker and comes home empty-handed and having to explain why."

Alexander Haig, a former US Secretary of State, echoed this view. On television, he said that Iceland was not the proper forum for a comprehensive arms control agreement. "The Administration was meeting Soviet objectives by rushing to a summit," he said—a view shared by Dr Henry Kissinger, President Nixon's National Security Adviser.

The New York Times said in an editorial that both sides were probably partly to blame for the "derailment." The US had reason to believe that individual (arms control) issues were separable while the Russians had cause to believe that the US would be more forthcoming on SDI.

Referring to the President's planned address to the nation tonight, the Times said Mr Reagan had an obligation to tell the country what happened next and how to get talks back on the rails.

George Shultz, US Secretary of State, addresses a press conference at Nato in Brussels

The Baltimore Sun said that, in retrospect, it was regrettable that the Iceland summit was held. Mr Gorbachev could now renege on his agreement to come to the US for a fully-fledged summit.

Yesterday, TV reporters painted the meeting in stark terms. One ABC diplomatic correspondent said Mr Gorbachev had scored a propaganda victory over the President by claiming the Soviet Union had offered "the arms deal of the decade."

Other commentators were more supportive of the President's stand on SDI, arguing that it was a bargaining chip which had brought the Soviet Union to the negotiating table.

Reaction in Congress was more muted yesterday, mainly because of the Columbus Day adjournment. But several prominent Democrats expressed guarded criticism.

Senator Sam Nunn, the leading democrat on the Senate Armed Services Committee, and an expert on arms control, said the President had shifted his position, making SDI his priority "even at the cost of giving up deep cuts in Soviet weapons."

He said: "SDI is going to be under more scrutiny and more fire than ever before."

But Representative Jack Kemp, the New York state Republican, a firm supporter of SDI, expressed relief that Mr Reagan had not caved in on Star Wars.

"The Soviets are going to have to come back to the table," he said. The impasse in Iceland could be a plus for Republicans who stand by Reagan, but "I know this will not be a universally held view."

Senator Gary Hart, one of the leading contenders for the presidency in 1988, said: "It appears that building Star Wars is more important to this Administration than meaningful arms control."

Senator Edward Kennedy, a one-time presidential candidate, said: "A grand and historic opportunity was there in Iceland but it has been sacrificed for the moment—on the uncertain altar of SDI."

Senator Richard Lugar, the Republican chairman of the Senate Foreign Relations Committee, and a key opinion former, defended the President.

He said the Soviet Union had attempted to trap the President into giving up SDI. "Their proposal would have prohibited the President from developing any defensive deterrent while the Soviets would be able to maintain their offensive superior capability."

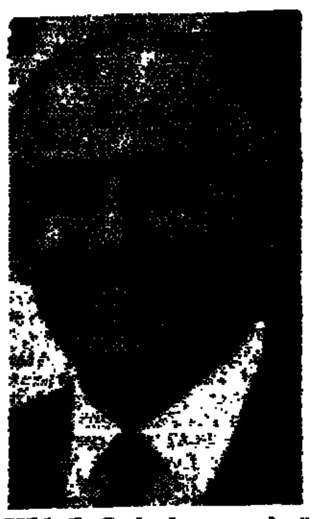
Patrick Cockburn on the implications for Moscow

Gorbachev gains high ground in political battle with US

MR MIKHAIL GORBACHEV, the Soviet leader, flew from Reykjavik to Moscow yesterday, disappointed at the outcome of the Iceland talks, but having won clear political advantages over President Reagan.

He is unlikely to face much dissension or criticism from Soviet leaders who stayed at home. He can say that the Soviet Union has done everything possible to achieve an agreement on the reduction of nuclear arsenals—indeed by early Sunday morning had largely done so—but was frustrated by President Reagan's insistence on developing and testing the "Star Wars" Strategic Defence Initiative (SDI). Mr Gorbachev therefore holds the political high ground at home and abroad, but this will not be seen in Moscow as sufficient compensation for the failure at Reykjavik.

The Soviet Union has long wanted to find out if, at the end of the day, a right-wing US Administration like that of President Reagan would make long-term agreements with it. In spite of all the negotiations since Mr Reagan came into office in 1981 the answer to this question had remained unclear up to the two days' meeting in Iceland. Moscow may now feel it knows the answer.



Mikhail Gorbachev: good at explaining

Mr Gorbachev spelt this out at his Press conference immediately after leaving President Reagan. He said he was not worried by Star Wars because he thought that the US could never create an effective anti-ballistic missile system to defend America against Soviet warheads. "I said to the President we are not concerned with the military threat of SDI," Mr Gorbachev said.

On the contrary, the Soviet leader stressed that the true "danger of SDI is political" because it creates "an atmosphere of suspicion and distrust."

Two serious questions immediately arise:

● *How far does the failure to achieve a more stable and controlled relationship with the US damage the Soviet Union?*

The immediate economic benefits of even a high degree of nuclear disarmament can be exaggerated. Nuclear weapons are cheap compared with tank armies and conventional weapons. An end to the nuclear arms race would take time to translate into reduced Soviet military spending, and a major transfer of resources from the military to the civilian sectors of the economy.

But in broader terms there is a very real, though more subtle, connection between Mr Gorbachev's desire to restructure Soviet politics and the management of the economy. To dismantle what is in effect a siege economy and the semi-military command structure and total authority of the Communist Party would be easier if the Soviet Union's relations with the outside world in general, but the US in particular, were to improve.

● *Is there a danger for Mr Gorbachev that other Soviet leaders and officials will see the concessions he offered in Reykjavik as a sign of weakness?*

No doubt that accusation will be made privately but it is unlikely to carry much weight. Mr Gorbachev is good at explaining his policies on television at home and abroad and he is likely to carry conviction. Most Russians will believe he tried and failed, but blame the US.

Marshal Sergei Akhromeyev, the Soviet Chief of Staff, actually headed the arms control working group which agreed on the radical weapons cuts in the early hours of last Sunday morning. The Soviet military cannot complain that they were stabbed in the back.

Most ominously, the failure at Reykjavik appears to have left open the issue of the size of the Soviet delegation at the UN. If the US goes ahead and expels 25 Soviet diplomats from the US as it has said it will do then Moscow is probably in the mood to retaliate harshly to show that conciliation in Iceland does not mean that it has become soft.

Yet Mr Gorbachev has clearly gained advantages at Reykjavik which put him in a much stronger position tactically than President Reagan. As a gloomy-looking Mr George Shultz, the US Secretary of State, announced the talks' failure on Sunday night, the Soviet gains were immediately obvious.

Enormous international attention will be focused on SDI, which Mr Gorbachev says was the cause of failure. Previously the Soviet Union could only claim that Star Wars frustrated its offer of weapons cuts. After Reykjavik it can point to actual agreements frustrated by SDI.

● *How will Soviet propaganda after Reykjavik seek to sustain and extend these advantages?*

Mr Gorbachev is too clever to beat the drum too hard when it comes to trying to influence US public and congressional opinion against President Reagan's position at Reykjavik.

He is likely to let the near agreements at Reykjavik speak for him and wait upon events.

It is unlikely that all the Soviet propaganda machine will behave with the same subtlety. "Repetition is the mother of learning," is a Russian saying which has been the rule for many Soviet writers on foreign affairs.

Although Mr Gorbachev concluded his speech on Sunday with a few up-beat notes on US-Soviet relations, there is a serious danger that they will now deteriorate.

The gloom of the senior Soviet officials on Sunday night as they heard the news of failure is not difficult to understand. They appeared to have decided, to reverse Mrs Thatcher's phrase, that Washington under President Reagan is not prepared to do business with Moscow.

What Moscow fears in the Star Wars programme

BY DAVID FISHLOCK, SCIENCE EDITOR

The changes sought by Moscow would hobble SDI's aims

PRESIDENT REAGAN may not carry the whole of his own scientific community with him in his vision of an impenetrable shield against enemy missiles. But there can be little doubt that Moscow is concerned that his Strategic Defence Initiative could give the US a military advantage.

The advantage Moscow may foresee is not just that it could provide the US itself with a shield—an electronic umbrella—but that such a defence could eventually bottle up Soviet missiles wherever they may be pointing. By mounting what, in effect, is a crash programme to design such a shield, the US threatens to widen a gulf Moscow tacitly accepts exists between its technological bases, in advanced electronics and information technology.

This year—the third of the SDI research programme—the US embarked on "architectural studies." The dictionary defines architecture as the science of building. For defence scientists, architecture implies the design of a combination of weapons, sensors, computers, power supplies and other military building blocks such as "penetration aids," into a system fast, effective and dependable enough to counter the enemy threat.

Its goal is to test the building blocks "by some combination of ground test, field test, and simulation" in time for a decision in the early-1990s whether to proceed with SDI system development. The modifications the Soviet side requires to the 1972 Anti-Ballistic Missile (ABM) Treaty would certainly hobble, perhaps cripple, SDI objectives in this respect.

The conceptual SDI architectures so far have tended to stress the "speed-of-light" weapons, of the order of 100,000 times faster than Inter-Continental Ballistic Missiles (ICBMs). These would aim to attack the missiles during the boost phase while still thousands of miles from their target and relatively manageable in numbers.

At a later stage of flight the missile releases its warheads and also a flock of decoys designed to look like the real thing on radar. These are the penetration aids. The same kinds of beam as are beginning to show promise as long-range weapons may also be able to distinguish clearly between warheads and decoys. But they must still be developed into a very fast-acting system if they are to cope with the numbers.

Overshadowed by public interest in laser and other beams are the novel kinetic energy weapons. These are projectiles hurled at speeds perhaps ten times as fast as a propellant or rocket could drive them. This can be done by electromagnetic forces. These "smart rocks" — a modern version of the cannon ball — promise to be a much cheaper way of intercepting an armada of warheads than beam weapons.

The architectural studies seek to combine these two kinds of weapon, beams and kinetic energy weapons, into a defence system that aims to destroy the maximum number of warheads early in flight, but can still mop up any survivors before they reach the West.

A confident decision on which SDI system — if any — to pursue in the 1990s will be made only if the building blocks are tested under realistic battle conditions, not on laboratory testbeds or computer screens.

Britain has unique experience of the SDI problem, through Chevaline, the £1bn update of its Polaris missiles, now nearing completion. Chevaline is the only missile system known to have adopted penetration aids, now seen as a big threat to SDI defence.

Chevaline is essentially a scheme for confusing the Soviet ABM defence of Moscow with a mixture of genuine warheads — at least two per missile — and simulated warheads or penetration aids.

Chevaline is an enormous "force multiplier" in terms of enhancing the effectiveness of the original weapon. Force multiplication through advanced technology is already a major commitment of Nato. In Chevaline's case, it may have improved the original weapon tenfold. One senior British scientist goes so far as to claim that for £1bn invested in Chevaline, Britain may have obliged Moscow to spend as much as £50bn.

Force multiplication lies at the heart of all SDI concepts, including those Nato has begun to discuss for the defence of Europe. Two organisations central to the development of Chevaline, Hunting Engineering and British Aerospace, have recently won SDI contracts for architecture studies. Hunting is the repository of British expertise in penetration aids.

OVERSEAS NEWS

Frontline leaders say S Africa is massing troops

BY ANTHONY ROBINSON IN JOHANNESBURG

THE WAR of nerves between South Africa and Mozambique shows no sign of diminishing following Sunday's summit meeting of frontline state leaders and their security advisers in Maputo. The meeting ended with a communique accusing Pretoria of massing troops on the Zimbabwean and Mozambican border but apparently leaving President Samora Machel of Mozambique to deal with the situation on his own. At a press conference after the meeting President Kenneth Kaunda of Zambia said: "We have left everything in the hands of our Mozambican hosts."

Malawi, which did not take part in the summit, was strongly criticised for its alleged complicity with South Africa and harbouring armed rebels of the Mozambican National Resistance (MNR).

President Machel accused Malawi of becoming "a destabilising agent of the whole of southern Africa" and warned: "We will have to decide what to do with a country that has decided to be a force of de-stabilisation."

At an earlier front line meeting with the Malawi President, Mr Hastings Banda, two weeks ago Mozambique threatened to move its Soviet supplied missiles up to the border with Malawi. This year this area has been the scene of fierce fighting between Mozambican Government Frelimo forces and MNR units active in the northern provinces and along the Beira road, rail and pipeline corridor.

In its first official confirmation of the gravity of the civil war in Mozambique's northern provinces the frontline states said in their communique that "frontier zones in the provinces of Tete, Sofala and Zambezia" had been occupied by "bandit gangs."

Unusually the weekend summit meeting was also attended by Mr Kengo wa Dongo, the prime minister of Zaire, which has long been criticised by the frontline states for allowing its territory to be used as a supply conduit for aid to the Angolan rebel movement Unita, led by Dr Jonas Savimbi.

The Zairean delegation held a separate meeting with the presidents of Angola, Mozambique and Zambia after Sunday's summit and the four agreed to hold another meeting with Zairean President Mobutu in the Zambian capital of Lusaka next Sunday.

The latest flurry of diplomatic activity between leaders of the front line states follows South Africa's decision to repatriate Mozambican workers and threaten retaliatory action against alleged African National Congress bases in Mozambique following last Monday's landmine explosion near the Mozambican border in which six white South African soldiers were wounded.

India blow for Indonesia

INDIA WILL not support Indonesia's bid to head the non-aligned movement when the position becomes vacant in 1989, at the end of Zimbabwe's current term, John Murray Brown reports from Jakarta.

This was confirmed yesterday by Indian Prime Minister Rajiv Gandhi who is on a one-day official visit here. "We have nothing against Indonesia's candidacy," he said, "but it is the turn of the Latin Americans."

Indonesia and Nicaragua have submitted rival bids to lead a movement, which former Indonesian leader President Sukarno had helped to found.

A Peruvian bid to head the 101-member organisation is being considered as a compromise, according to diplomats.

The decision of India, the movement's last chairman, looks like a surprise blow for President Suharto, the military leader who has presided over Indonesia for the past 20 years.

With presidential elections in 1988, the chairmanship of the non-aligned movement was seen as an opportunity for the Indonesian leader to enhance his reputation as an international figure.

Queen tells of £1m scholarships for Chinese

By Robert Thomson in Peking

PRINCE PHILIP drove a British-built dump truck, Queen Elizabeth and Li Xiannian, the Chinese President, were fulsome in their praise for each other's countries, and Prince Charles and Princess Diana were extended an invitation to visit China.

Thus ended the first official day of Her Majesty's six-day visit to China, the first ever visit by a British Monarch.

Having spent part of the afternoon strolling through the Imperial Palace's Gate of Heavenly Purity and Hall of Mental Cultivation, the Queen last night announced the establishment of the Royal Fellowships for China, which will provide more than £1m in scholarships to Chinese scientists.

The first full day of the Queen's itinerary had a heavy historical flavour. At her welcoming banquet, at which she was served dishes such as Buddha jumps the wall, the Queen said that 390 years ago, Queen Elizabeth I sent a message to China "expressing the hope that trade might be developed" between the two countries.

"The messenger met with misfortune and the letter never arrived," the Queen said. Last century the two countries went to war over the right for the British to trade, with British military might forcing China to open ports to foreign traders.

Li Xiannian, told Her Majesty that the royal visit was a high-point in the annals of Sino-British relations. President Li said that the settlement of the Hong Kong question in 1984 had opened the way for "a new historical period" in bilateral relations.

The Duke of Edinburgh was doing his bit for Sino-British trade by touring a dump truck factory, the Peking Heavy Duty Truck Plant, which has a joint venture with Aveling Barford. Today, he is due to visit a China-EEC management centre, and he will tour the Shanghai Yaohua Pilkington Glass Company tomorrow.

Chinese officials have been stressing that the Hong Kong agreement was a turning point in relations, which puts implicit pressure on Britain to abide by the Chinese interpretation of the agreement.

Formation of an opposition party has gone unchallenged by hardliners. **Bob King** reports

Chiang restrains Taiwan's mailed fist

JUST ABOUT everyone was startled when Taiwan's opposition declared it had formed a new political party two weeks ago in direct defiance of martial law. More startling still, the Nationalist Party, which has ruled this island for almost 40 years with a mailed fist, so far shows no sign of doing anything about it.

President Chiang Ching-kuo, the ailing, 76-year-old son of the late Generalissimo Chiang Kai-shek, brought hardliners in his party to order last week when he urged them to refrain from rash actions and to work for political harmony and long-term goals rather than getting bogged down in short-term problems as represented by the formation of the Democratic Progressive Party and the challenges it represents.

It also seems clear that the Government will soon lift martial law, under which many constitutional guarantees are curtailed, and end the *de facto* ban on the establishment of new political parties.

The questions being asked by many is has the world's longest-running, non-Communist government-by-decree suddenly got religion? Have pragmatists slipped inside the palace and brought about a quiet coup d'etat? Or does the new party simply represent an extension of business-as-usual by this island nation of 20m who no longer care to live in a state of siege?

President Chiang: considered open-minded and progressive

The answer to all of the above is yes. Mr Chiang's handcuffing of the hardliners is consistent with his policies of political liberalisation and of Taiwanisation. He has for years been putting important positions in the hands of native Taiwanese who represent an estimated 85 per cent of the population.

Also pragmatists both within the party and outside it have long perceived that martial law, with all the restrictions it places on human rights and freedom of expression — including the right to form new political parties — has grown increasingly anachronistic in terms of Taiwan's growing affluence and awareness.

These pragmatists have been quietly lobbying for a change in the status quo, against the wishes of ageing hardliners forlornly committed to a return to mainland China and to a continued monopoly on privilege and power.

Finally, there are the masses themselves who have grown up with the constant reminders from Government that keeping one's attention on business and away from politics is the best way to avoid trouble. True as that may be in the short term, it has made for so-called economic animals who perceive government as something remote, to be feared and, in the best case, simply tolerated.

That hardly makes for the participating citizenry that Dr Sun Yat-Sen, the medical revolutionary whose intrigues eventually overthrew the corrupt Manchu dynasty 75 years ago this month, had in mind when he drew up his guidelines for the new Republic of China.

Preparation for political liberalisation has been long in the making. In fact, analysts attribute the party's determination to end martial law and allow more political participation by the rank-and-file to Mr Chiang, who, though surrounded by hardliners and hindered by filial commitments to many of the policies of his father, is considered generally open-minded and progressive.

Just after the announcement of the new party's formation, for instance, a small group of extremists demonstrated against the opposition move, writing petitions in their own blood and calling on the Government to place the party's founders on trial for sedition.

About the same time, a select group of Nationalist Party members recommended abolition of martial law. Mr Chiang responded at a meeting of the party's powerful central standing committee with a thinly-veiled warning to extremists both within the party and outside it that rash actions would jeopardise the long-term goals of the nation. The Washington Post also quoted him as saying his Government would soon abolish martial law and the concurrent limits on personal freedoms.

Such a commitment could surely change if the Democratic Progressive Party challenges too openly still-sensitive issues such as Taiwan's relationship to China or provokes civil unrest, however. For instance, the new party has said it goes along with Communist proposals for communications links and visits home by old mainlanders in Taiwan—a direct violation of the official policy of no contacts with China.

Also, the party has not yet come out with firm commitments to a united China and anti-Communism, a Nationalist measure of loyalty to the nation. Opposition insiders say they simply decline to define themselves by slogans. But such commissions and omissions disturb the Nationalist old guard, who traditionally have harboured suspicions about native Taiwanese feelings.

Still, the Communists have the most to fear from the new, non-Nationalist voice on Taiwan. For while the new party favours a neighbourly relationship with China, it inclines less toward reunification than the Nationalists—and certainly not on Peking's terms.

Foreign Ministry officials in Peking were *not* willing to comment on the new party's establishment over the weekend, and political analysts in Taipei opined that they were as taken aback as the Nationalist old guard by the new developments.

Relations improve between Egypt and Saudi Arabia

BY TONY WALKER IN CAIRO

THE MEETING of President Hosni Mubarak of Egypt at the weekend with a group of Saudi Arabian businessmen is a further sign of improved relations between the two neighbouring Arab states officially estranged since Cairo was suspended from the Arab League in 1979.

Saudi fears about developments in the Gulf War provided the catalyst for improved relations. Gulf states have been pressing Egypt to increase its military support for Iraq which is now under immense Iranian pressure.

The improvement in Saudi-Egyptian relations has been marked by increased official contacts. There are also reports circulating in Cairo that the Saudis have resumed cash transfers to Egypt in return for arms shipments to Iraq.

A senior Egyptian military official said Iraq was told earlier this year Egypt was finding it difficult to extend open-ended credit facilities for munitions purchases and that the Iraqis should approach Gulf states to help.

Egypt has been a big supplier of ammunition and light weapons to Iraq. There are regular military contacts between the two countries.

Other indications of improved Saudi-Egyptian relations include a recent interview given by King Fahd to the editor of the semi-official Egyptian newspaper al-Ahram, and a Saudi gift to Egypt in mid-year of 200,000 tonnes of wheat.

Reuter adds from Baghdad: Iranian long-range artillery yesterday opened up on Basra, Iraq's second city with a population of about 1m, in retaliation for Iraqi air raids.

Assad denies jet bomb plot

SYRIA'S President Hafez al-Assad has denied that his government was involved in an attempt in London to place a bomb on an Israeli airliner, Our Middle East Staff reports.

In an interview with Time Magazine published today, President Assad asserted that "no terrorist acts were carried out from Syria, by Syrians or others." He claimed that Israeli intelligence had been behind the attempted attack on the airliner.

President Assad said that Israel had planned the operation to halt before the bomb was placed on board and then to use the matter politically. "Theoretically they made up a plan to down the plane and created a scenario for executing the plan. But the scenario ends at the plane's doorstep when the woman carrying the briefcase hands it over to an Israeli security officer," said Mr Assad.

Opposition leaders held in run-up to Bangladesh poll

BY JOHN ELLIOTT IN DHAKA

BANGLADESH'S TWO top opposition leaders were detained in their homes by police and about 30 other senior political figures were arrested yesterday in advance of tomorrow's presidential election.

Three people have been killed in the past two days and more than 100 injured in a series of demonstrations in the capital of Dhaka and the port city of Chittagong. There have also been a series of small bomb blasts in both cities. Students yesterday set buses on fire in Dhaka and stoned cars.

The protests are against the election called by General Hossain Mohammad Ershad, the country's military ruler, who took control of the Government in a bloodless coup in 1982 and made himself president nearly three years ago. The two main opposition alliances are boycotting the polls, partly because of heavy rigging of parliamentary elections in May. President Ershad is therefore the only possible winner in tomorrow's poll and has issued martial law orders banning any protests against the event.

But opposition parties have been continuing with meetings and protest demonstrations and have called a general strike for tomorrow. It is for this reason that political leaders have been rounded up or detained in their houses including Sheikha Hasina, daughter of a former president assassinated in 1975, and Begum Khalida Zia, widow of another president assassinated in 1981.

President Ershad confirmed in an interview yesterday that he would lift martial law soon after tomorrow's poll, possibly next month.

AMERICAN NEWS

Editors hit at Reagan over false press leaks

THE AMERICAN Society of Newspaper Editors has attacked disinformation campaigns as a "tactic of totalitarian regimes" and is urging the US Government to disavow the practice, AP reports from Washington.

In a telegram to President Ronald Reagan the society protested about reported efforts by senior government officials to mislead the American public about US policy towards Libya.

The society said it had examined evidence that Administration officials had been involved in a disinformation campaign.

"This calculated technique of falsehood, commonly employed by totalitarian governments as an instrument of policy, is repugnant to American democratic principles and destructive of the role of the press in a free society," the telegram said.

The editors said they were outraged, and asked Reagan and his aides "to make unmistakably clear their disapproval of the practice of 'disinformation' at any level of government."

Editors also should be alert to "any attempt by any source, under the cloak of anonymity, to mislead the American people," the society said.

The issue was first raised earlier this month with reports of a secret White House plan to deceive Libyan leader Muammer Gadaffi into thinking the US might attack him again.

The plan, as described in a memo by National Security Adviser John Poindexter, involved using "real and illusionary events—through a disinformation programme" to convince Gadaffi the US was going to launch another military attack against him.

Brazil nuclear chief resigns over cash crisis

BY IVO DAWNAY IN RIO DE JANEIRO

BRAZIL'S troubled nuclear industry has suffered two new blows with an accident at its one functioning reactor and the resignation of a key director in protest at the lack of finance for completing two other plants.

Reports of a radiation leak, from a valve controlling water used in the Angra 1 reactor's refrigeration system, came just a day before the Supreme Court ruled that the plant could be reopened.

This was followed by the announcement at the weekend that Mr Ronaldo Fabricio, a director of the state holding company Nuclebras and the head of its crucial engineering division Nuclen, had resigned. Mr Fabricio explained his decision as a protest at the lack of government funding to complete the Angra 2 and 3 reactors, now under construction in conjunction with Kraftwerk Union of West Germany.

Angra 1, situated less than 200 km from Rio de Janeiro, had been closed in January for repairs, but remained shut when a local magistrate claimed that insufficient plans had been made for an emergency evacuation in case of accidents.

The accident will add to local fears oved the plant's saftey following the Chernobyl disaster. And already Mr Fernando Gabeira, the Green Party candi date for the government of Rio state, has exploited it in his nuclear programme campaign for a total halt to the

Before last week technicians from the International Atomic Energy Agency had approved safety measures at Angra, though there have been some criticisms of liaison on safety with other countries. Officials at the plant said the accident had been extremely minor, and had not endangered workers.

The decision of Mr Fabricio to leave Nuclebras after more than 10 years with the company came as a protest against the failure of the Brazilian Treasury to provide sufficient funds to complete the now truncated plant building programme.

Already 40 out of 160 German-trained technicians have left in frustration at the delays and cash starvation that has dogged Nuclebras.

Earlier this summer President Jose Sarney approved a report calling for completion of the two plants under construction. However, no provisions have been drawn up to raise the $2bn that this will require and the total does not cover debt servicing costs which last year added $241m

So far the Treasury has allocated just Cz 200m ($4.3m) for 1987 and though the Government is expected to provide the resources these are unlikely to be announced before national elections on November 15.

Mr Fabricio in a four-page letter explaining his resignation said he was not prepared to order a shutdown of all work on the two new plants—the only option now available because of the lack of funds.

The cash crisis at Nuclebras is now so acute that managers have again been forced to suspend payments to contractors. Millions of dollars worth of equipment are now lying idle, raising concern over maintenance.

The resignation of the director comes as a psychological blow for a management team already concerned about the drain of highly qualified personnel at a time when Brazil is trying to build up its technical base.

A Salvaderan National Guardsman watches over the bodies of eight students killed by the earthquake

Earthquake survivor hopes fade

BY DAVID GARDNER IN SAN SALVADOR

ABOUT one-fifth of the population of San Salvador has been made homeless by last Friday's earthquake, according to government estimates which put the confirmed number of dead at 890 with 30,000 injuries, and calculate the damage at $2bn.

Rescue workers, who yesterday were still tunnelling into ruined buildings in the fast-fading hope of saving more lives, believe the eventual toll could reach 2,000.

The clearer picture of the magnitude of the disaster has begun to emerge following a cabinet meeting on Sunday night, after which President Jose Napoleon Duarte told reporters that 150,000 to 200,000 of the capital's less than 1m population had lost their homes, and claimed that damage, affecting to some extent all public buildings, exceeded the losses caused by seven years of civil war.

At the cabinet meeting, held in an army barracks and attended, unusually, by diplomats, President Duarte berated his ministers for lack of co-ordination in relief efforts, and expressed concern about the political consequences of any mishandling of the emergency.

Many of the immediate political consequences for Mr Duarte's beleaguered government—locked in a stalmated war with a still powerful left-wing insurgency and deeply unpopular because of his failure to either bring peace or creat jobs—could be beneficial.

He can confidently expect an increase in US aid; direct military and economic aid from Washington has topped $2.2bn since the war began. His decision to put private sector leaders in charge of co-ordinating international relief will, his aides think, win him a truce with business interests he was violently at odds with following this year's introduction of a 4 per cent wealth tax. And the opposition, from the reinvigorated trade union movement to the guerrilla insurgency, appears willing to allow some breathing space while the emergency lasts."

Trade fears dim Expo euphoria

Bernard Simon in Toronto looks at the economic background to British Columbia's election

THE RESIDENTS of British Columbia, Canada's most westerly province, are unsure whether to laugh or cry this week. Many want to celebrate the huge and unexpected success of the Expo 86 world fair in Vancouver, which ended yesterday after attracting close to 22m visitors, 50 per cent more than organisers expected when the fair opened last may.

But other members of Canada's most volatile and, arguably, most interesting society are worrying about the run up to the provincial elections scheduled for October 22. On Thursday, the US Department of Commerce is expected to recommend that Washington impose stiff new duties on C$4bn (£2bn) a year of softwood lumber imports from Canada, most of which come from forests in British Columbia. The duties are meant to counter subsidies which logging companies allegedly receive in the form of unusually low timber cutting fees in state forests.

The bad news has been compounded by a lockout of 3,700 dockworkers in Vancouver and other west coast ports, which brought shipments of many key Canadian exports (including grain, wood products and potash) to a standstill earlier this month. Meanwhile, a strike by 20,000 loggers and sawmill workers has crippled parts of the province's forest industry for the past three months.

Mr William vander Zalm, the stylish millionaire horticulturalist who took over as provincial premier last July, hopes that the glow from Expo will—at least for the time being—obscure the province's labour problems.

Unless something goes badly wrong in the next two weeks, Mr vander Zalm's ruling Social Credit Party is expected to score a surprise landslide victory. Besides the powerful weapons of Expo and the new premier's charisma, the socreds will benefit from the stodgy leadership of their main opposition, the left-leaning New Democratic Party.

A Socred victory would have been unthinkable a year or two ago after a fiscal restraint programme launched by Mr vander Zalm's hardline predecessor Mr Bill Bennett gave the party a reputation as one of the most right-wing and confrontational political groups in Canada.

Cutbacks in many public services in 1983 coincided with a deep slump in British Columbia's resource-based economy. Unemployment, which was in single figures as recently as 1981, jumped to almost 15 per cent.

Mr Bennett began loosening the purse strings about 18 months ago and adopting a more relaxed style. At the same time, the provincial economy started showing signs of life, thanks to rising lumber exports to the US, higher pulp prices and an influx of Far East investment.

After shrinking by almost 5 per cent in 1983, real gross domestic product expanded by 3.8 per cent last year and is likely to grow by close to 4 per cent again this year. Expo alone has spawned two new deluxe hotels in downtown Vancouver, a 22 km rapid transit system, and the impressive Canada Pavilion and conference centre.

Some British Columbians fear that the end of Expo will bring the province back to reality with a bump. A Bank of Nova Scotia economist calls the threat of a countervailing duty on softwood lumber "a very serious threat to the economy." Forest products make up half British Columbia's exports and 45 per cent of industrial output.

Barring further strong growth in US markets or an improvement in world metal prices, growth next year is expected to be much lower than 1986. Unemployment is sure to rise again as the service-related jobs created by Expo disappear.

Mr vander Zalm thus appears to have chosen the best possible time for an election. Despite the pause in economic expansion expected next year, business confidence is more buoyant than it has been for some time. The forest products industry is planning substantial new investment to modernise its facilities. Inquiries from foreign investors are picking up. Prices of some metals mined in British Columbia, like gold and zinc, are recovering. Some economists believe that now may be the best time to invest in real estate west of the Rockies.

Seaga in surprise offer to resign

BY CANUTE JAMES IN KINGSTON

JAMAICAN POLITICS hung in the balance last night following the surprise offer of resignation by Mr Edward Seaga, the prime minister and leader of the conservative Labour Party.

Mr Seaga has reacted to mounting criticism from several prominent parliamentarians at a weekend meeting of the Labour Party's executive. Critics say the Government's economic policies have the Jamaican poor.

The prime minister has also been attacked for his style of leadership. His critics say this contributed to the Labour Party's heavy defeat in last July's local government elections by the social democrat Peoples National Party led by Mr Michael Manley,

Labour officials said yesterday, however, that there were indications that Mr Seaga was using his threat of resignation to obtain what would be effectively a mandate to continue his economic policies. A

The election is due constitutionally in exactly two years.

RIVALS: Edward Seaga (left) and Michael Manley

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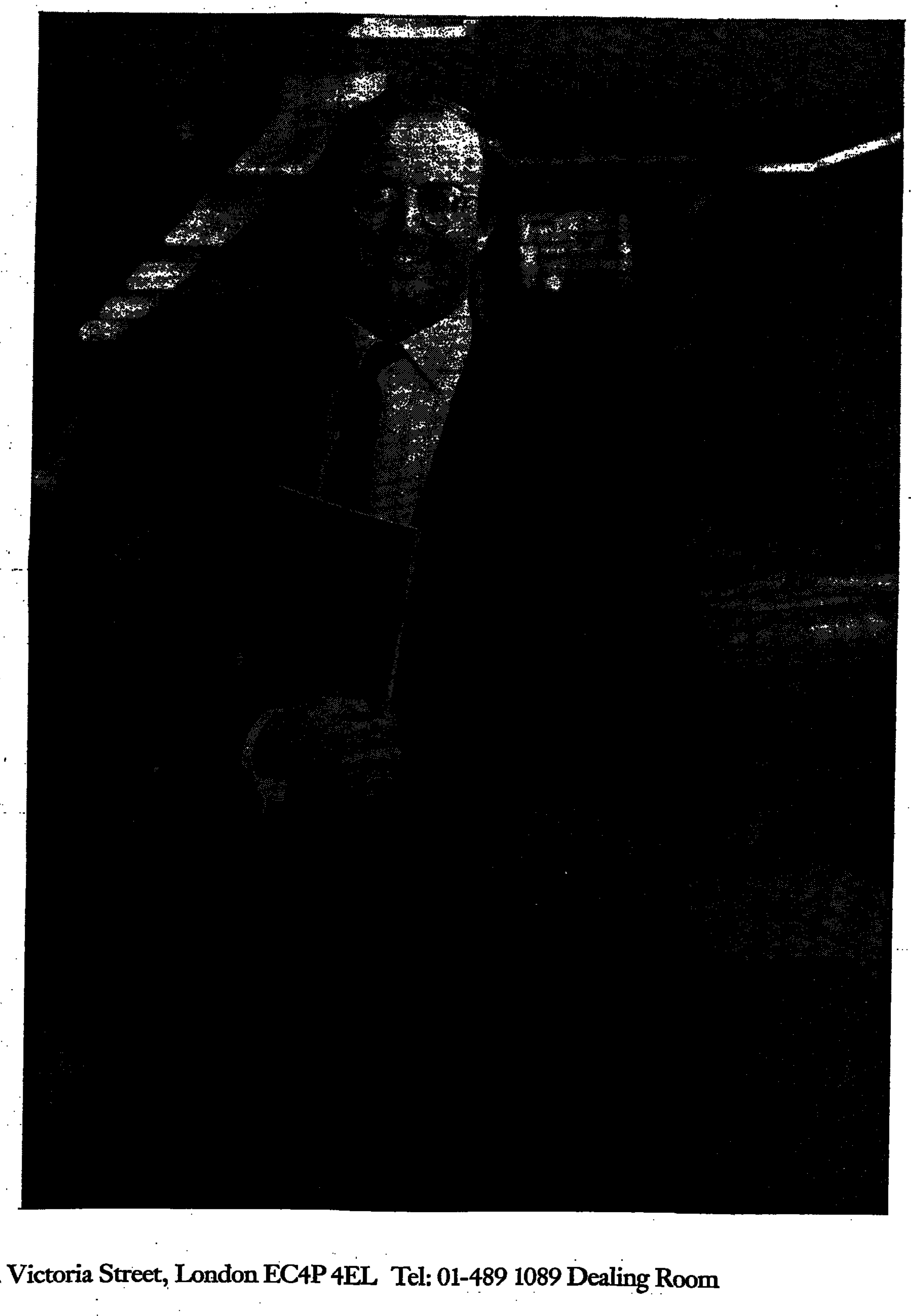

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WORLD TRADE NEWS

Skiing dispute goes to Gatt

By Carla Rapoport in Tokyo

THE tussle between Europe and Japan over ski standards enters a new phase this week with informal talks between the two sides at the General Agreement on Tariffs and Trade (Gatt) in Geneva.

European ski manufacturers and EEC officials have bitterly protested against a new Japanese ski standard which they claim will discriminate against European ski equipment imports to Japan.

Among other things, the Japanese standard takes into consideration the different skiing conditions in Japan.

No other country, the Europeans claim, has issued ski equipment standards based on domestic weather.

EEC officials in Tokyo say that Japan's Ministry for International Trade and Industry has agreed to participate in informal talks this week with the Gatt's committee on technical barriers to trade.

If these talks are not fruitful, EEC officials say the issue may be formally pressed with the Gatt.

Japan has undertaken to review the standard, called the SG-Mark, and expects to report on the issue within eight months. The ministry, however, has rejected a request to suspend the standard, saying that it does not have the legal power to do so.

Japan's exports to EEC soar 73% to $3.08bn

BY IAN RODGER IN TOKYO

JAPANESE exports to the EEC soared by 73.3 per cent to $3.08bn (£2.16bn) last month, while sales to the US rose 28.2 per cent to $7.26bn, according to Japan's latest custom-cleared trade figures.

Overall Japan had a record monthly trade surplus of $8.92bn on the strength of a 28 per cent rise in customs-cleared exports to $19bn.

The figures confirm EEC complaints that Japanese exporters have been diverting sales efforts from the US to Europe.

The Japanese counter claim that European exports to Japan have also been rising sharply is also borne out by the figures. Imports from the EEC were up 77.1 per cent to $1.21bn.

But imports from the US were down 0.9 per cent to $10.08bn last month, indicating the continuing difficulties of US industries in penetrating Japanese markets.

For the first half of the fiscal year, the $46.3bn trade surplus was 67 per cent higher than in the corresponding period last year. However, in yen terms, it was up only 22 per cent to Y7,582bn.

Mr Toyoo Gyohten, Vice-Minister of Finance for International Affairs, said yesterday that Japan's current account surplus this year would be about $80bn but there would be a substantial decline next year.

At a seminar for foreign institutional investors in Tokyo, Mr Gyohten declined to comment on the danger of protectionist moves in the US if the surplus did not fall below a certain level.

The important thing was that there be a steady and continuing trend of improvement, he said.

Oki Electric seeks site in Europe to produce printers

BY CARLA RAPOPORT IN TOKYO

OKI ELECTRIC, one of Japan's big electronics companies, is considering producing printers in Europe in an attempt to relieve mounting trade friction between Japan and the EEC.

The company is understood to be considering a site in West Germany, Britain or France. Officially, however, Oki refused to confirm the size of the investment or when the final decision would be made.

The EEC recently imposed anti-dumping duties on Japanese photocopiers, a move which has prompted most big copier makers to establish or boost production in Europe.

Many Japanese executives fear Brussels may impose a similar duty on printers. By setting up a printer plant in Europe, a Japanese company avoids both import costs and duties.

However, shifting production abroad has become increasingly controversial in Japan because it is contributing to a rise in unemployment.

Oki is one of Japan's leading specialists in data processing equipment, as well as communications equipment and printers. The company has exports of about $100m (£70m) a year to Europe, with about two-fifths of that accounted for by printers. It is understood Oki is considering a joint venture with a European plant.

If Oki goes ahead with plans to build printers outside Japan, it will be following in the footsteps of other big printer producers, such as Toshiba and Fujitsu, which have printer production in the US. It is also understood Seiko Epson is considering building printers in Britain.

Greeks in attack on UK cement makers

By Andrew Taylor

TWO OF the biggest Greek cement manufacturers, Titan SA and Heracles General Cement, have strongly attacked the British cement manufacturers for trying to hamper Greek cement imports to Britain. They describe the British industry as technically obsolete and inefficient.

The attack is contained in a joint memorandum which accompanied a letter from Mr George Katsifaras, Greek Commerce Minister, to Mr Alan Clark, the British Trade Minister, in which he criticised the British Government.

Cement makers and the British Government had earlier complained that Greek manufacturers were abusing EEC-approved subsidies to dump cut-price cement in the UK.

Mr A. L. Canellopoulos, managing director of Titan, and Mr N. Kalogeropoulos, chairman of Heracles, deny the British claims. "Conversely it could be truthfully alleged that the British cement industry enjoys a privileged coal price, lower than other industrial consumers.

"It also enjoys a lower electricity price, approximately 30 per cent cheaper than that of the Greek industry, not to mention fuel oil which is 50 per cent cheaper, due to heavy taxes in Greece," say the two companies.

They claim the only benefits the Greek industry receives are tax rebates because value-added tax has still to be applied, under EEC rules, to Greek cement exports.

British manufacturers claim that, in addition to direct state subsidies on exports, some Greek manufacturers have been allowed to defer payment of electricity bills and been given interest relief on loans to state-owned banks.

The British Office of Fair Trading is investigating whether the common pricing agreement operated by British cement manufacturers should be referred to the Restrictive Practices Court.

Taiwan and US talks fail over import ceilings

TAIWAN and the US have failed again to reach agreement in a long-running dispute over Taiwanese import restrictions on US wine and cigarettes, AP-DJ reports from Taipei.

A Taiwan trade official said yesterday that his country was still looking for a reasonable way to resolve the differences.

The negotiations were the fourth round of such talks since Taiwan committed itself last October to opening its market within a year to imports of US cigarettes and wine.

Alfonsin arrives in Moscow as bilateral trade hits six-year low

BY TIM COONE IN BUENOS AIRES

PRESIDENT Raul Alfonsin of Argentina arrived in Moscow yesterday for a four-day official visit which marks a high point in Soviet-Argentine relations. That, at least, is the official version.

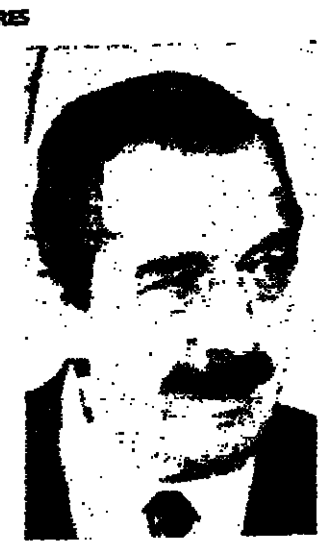
But the visit comes when bilateral trade between the two is at its worst level for six years.

In 1980, the Soviet Union suddenly became Argentina's biggest export market. This followed the Soviet invasion of Afghanistan which resulted in a US embargo of grain sales to the Soviet Union. Argentina filled the gap.

Despite constant complaints and to the continuing chagrin of the Soviet Union, Argentina has never reciprocated, resulting in a considerable trade imbalance in Argentina's favour. In 1985, the Soviet Union imported $1.2bn of products, mostly grains, from Argentina, but succeeding in exporting only $100m (£70m) worth.

The result over the past six years has been that the Soviet Union has run up a cumulative trade deficit with Argentina of almost $10bn, and it has been made clear this year that this will not be allowed to continue.

In January this year, a new five-year agreement was signed in which Moscow would buy annually 4.5m tons of grains, only a third of peak trade in 1982.



President Alfonsin: sensitive visit

Almost 10 months later, purchases by the Soviet Union have not reached even 500,000 tons according to the Argentine National Grain Board, and it is now unlikely the agreement can be adhered to in 1986.

After the visit to Moscow at the beginning of the year of Mr Dante Caputo, the Argentine Foreign Minister, the Soviet complaints were thought to have been heeded.

The Soviet Union subsequently put forward bids for a series of projects in Argentina, valued at about $300m. These include the sale and installation of hydro-electric turbines, electrification of part of Argentina's railway network, the dredging and improvement of Argentina's main grain port in the south at Bahia Blanca and the development of joint deep-sea fishing ventures in the South Atlantic.

The problem, however, is that apart from the fishing ventures, all the projects will involve capital spending by the Government, when Argentina is trying desperately to reduce investment to keep inflation at manageable levels and to impress its Western creditors that its economy is under control. If not, new finance may dry up.

Such arguments may cut little ice with Moscow and if President Alfonsin does not show some willingness this week to find ways of improving the trade relationship, he may find that the Soviet Union will take advantage of the cheap subsidised grains that are again on offer in abundance in the US and EEC.

Chinese national pride over satellites may be heading for a crash landing

Robert Thomson in Peking examines the progress of a marketing drive in the space business

CHINA'S failure so far to sign a contract with a foreign company to use its satellite launching system has raised doubts as to whether the country's commercial plans will get off the ground.

The country has embarked on a marketing drive for its satellite launching capability and has invested much national pride and apparently about 1 per cent of gross domestic product a year in the space development programme.

Three initial launch reservation agreements—two with US companies and one with a Swedish company—have been signed this year as well as a letter of intent with Iran.

Mr Barry Jones, the Australian Science Minister, is one of few foreigners to have seen the launching facility at Xichang in the south-western province of Sichuan. He said that "given the poverty of the area, which the provincial Government concedes, the base is a remarkable achievement."

China is courting the Australian communications agency Aussat, which is due to commission a communications satellite for August 1991, and another for early 1992. Mr Jones said that Chinese officials were "clearly interested in Aussat as a customer."

The launch site — chosen for its closeness to the Equator, even climate and relative security from Soviet infiltration — is about 30 miles from a military base where much of the equipment is stored between launches. The Australian Minister said the launching facility is activated only in preparation for a launch and "is not Cape Canaveral."

Carrier rockets are launched from Xichang, and for the first 200 miles or so of their flight are tracked by the nearby military base, and after that by a space centre at Xian in central China. The Xian centre puts the satellites into geostationary orbit.

The rocket "flies blind" for sections of its journey, as China does not have an international communications network of sufficient scope to constantly track its movement. Chinese scientists rely far more on visual sightings through telescopes assisted by lasers than either the US or European launch agencies.

Chinese officials are providing conflicting information on the country's launch capability. The Great Wall Industrial Corporation, a commercial arm of the Astronautics Ministry, suggests that China could launch 12 to 13 satellites a year, while Chinese scientists at Xichang say the maximum per year is five.

Great Wall officials say that two contracts will be signed later this year, and that two launches will take place not later than March 1988, while other scientists say that the lead time between contract-signing and launch will be at least 30 months. While it is officially claimed that there has been one failed launch out of 18 since 1970, some suggest that there have been three failures.

The People's Insurance Company of China (PICC) has offered to insure launches, but is reluctant to give a breakdown of its rates. It is understood that the going rate is about 25 per cent of satellite cost. One area of concern had been the possibility of PICC demanding to inspect satellites before insuring them, but a PICC spokesman said no such inspection would be required.

Great Wall's deputy general manager, Wu Keli, said that China's Customs Ministry would also be asked not to inspect the satellites, and foreign companies can use their own personnel to ensure the security of the satellite in China, which has not yet been able to build its own sophisticated communications satellites.

The Australian Science Minister said that the next generation of Aussat satellite would weigh 2,600 kg, and that Chinese officials admitted that a major overhaul of both its rocket and launch facilities would be needed to handle an object of that weight, twice as heavy as the present generation of satellites.

Nonetheless, Mr Jones was "very impressed" by what he saw. He said it was clear that the cream of Chinese scientists is selected for the space programme, and that minimal disruption was caused during the chaos of the cultural revolution (1966-76).

GEC wins cabling order for Hong Kong housing

BY RAYMOND SNODDY

GEC of the UK has won an order for switching equipment for an initial phase of the cabling of Hong Kong. The order, given to GEC Cable Systems, is for 30 channel cable in a housing development in the Talkoo Shing district of Hong Kong Island.

It is worth less than £1m but GEC hopes it will lead to much more business if plans go ahead to cable the colony.

Several groups have submitted proposals to the Hong Kong Government. Decisions on the awarding of the franchise are expected next year.

One of the groups is led by the Hong Kong Telephone Company, controlled by Cable & Wireless, and another is led by Hutchison Whampoa, a trading and property company. It includes British Telecom.

The Hong Kong contract is GEC Cable Systems first overseas order but it recently won an order worth up to £25m for the cable network for the East London Telecommunications franchise in London Docklands. It is also building the network for Clyde Cable in Glasgow.

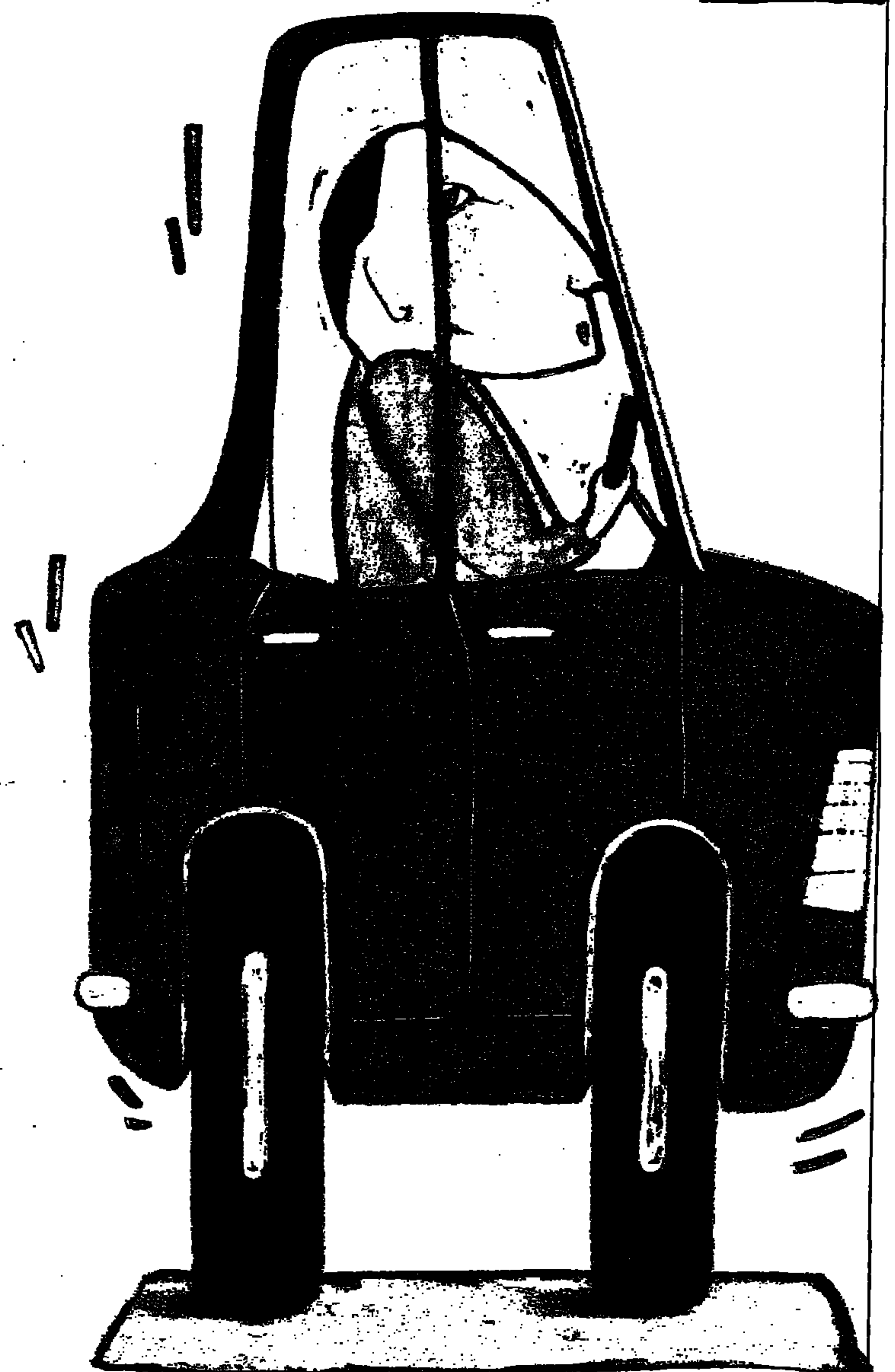
EEC probes fertiliser dumping claim

THE EEC Executive Commission said yesterday it was investigating complaints that eastern bloc, Arab and Caribbean countries had been dumping fertiliser on the community, Reuter reports from Brussels.

The investigation involves exports of the fertiliser, a synthetic nitrogenous compound, to the community from the Soviet Union, Czechoslovakia, East Germany, Yugoslavia, Kuwait, Libya, Saudi Arabia and Trinidad and Tobago, the authority said.

The complaint was lodged by a committee representing companies that account for most of the community's output of urea, a major ingredient of fertilisers.

WHY WE SQUEEZE A YEAR'S DRIVING INTO A WEEK.



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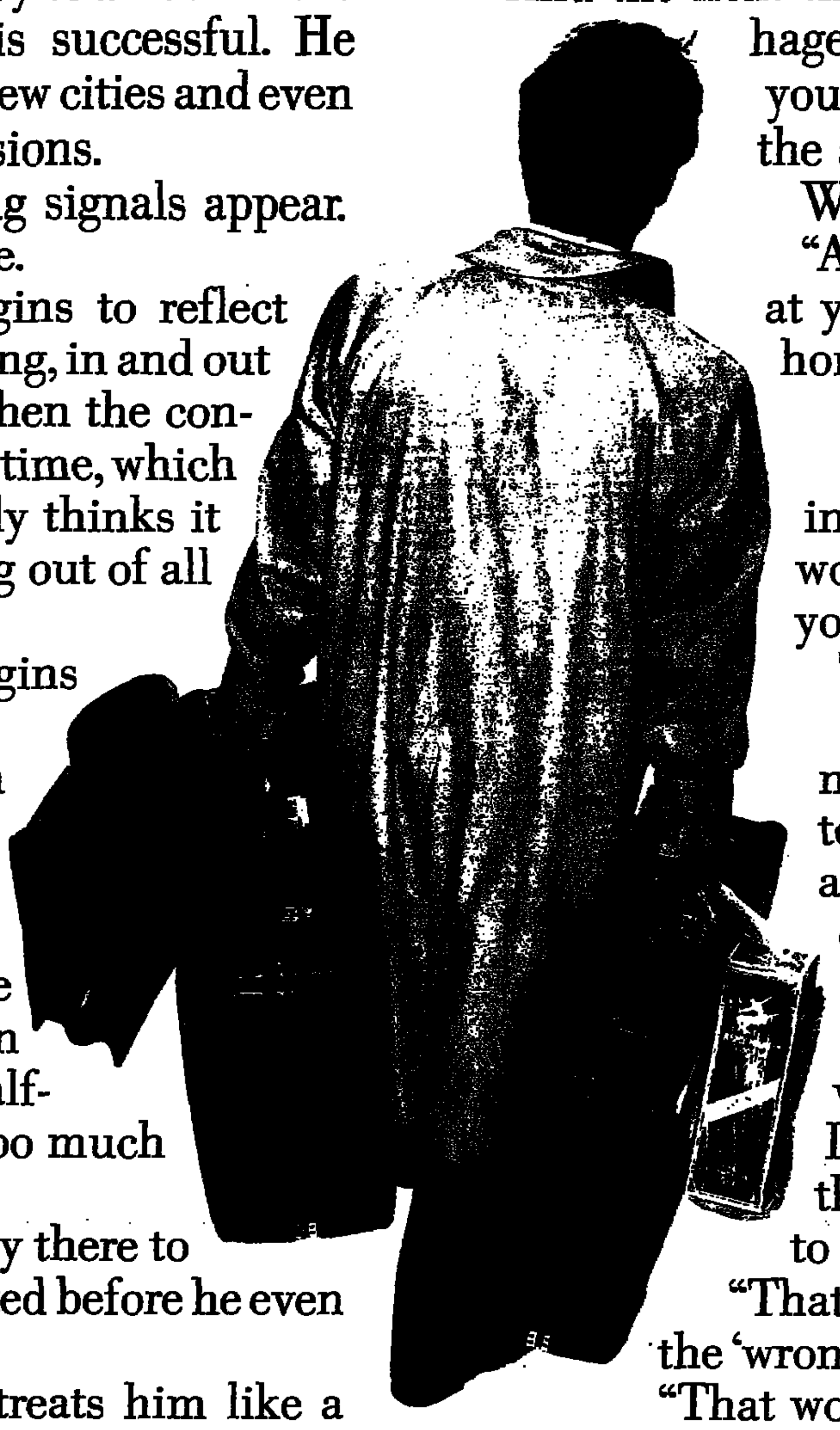

UK NEWS

Car market forecast to top 2m units by 1991

BY JOHN GRIFFITHS

THE UK new car market is likely to cross the 2m a year threshold of its own accord within the next five years, according to a new report from the Economist Intelligence Unit (EIU).

This would occur even without the Society of Motor Manufacturers and Traders (SMMT) succeeding in its campaign over many years to persuade the Government to abolish the 10 per cent Special Car Tax, according to the latest edition of International Motor Business.

The SMMT has argued that a large domestic market base, of 2m units or above, is vital for the welfare of the UK industry but that this could not be achieved without the "iniquitous" tax being lifted.

The EIU is forecasting that sales will set a record again this year for the second successive 12-month period. The total should reach 1.86m units, compared with 1.83m in 1985 and the previous record of 1.79m units set in 1983.

However, the report gives a warning that there will be a temporary market contraction in 1987, to 1.82m units. UK car production will also remain stagnant, at around the 1m market, this year and next.

Several factors are perceived as contributing to the larger market:

● Heavy discounting producing the lowest car prices, in real terms, for several decades.

● High and increasing company profitability and liquidity stimulating the fleet and business car sector.

● The continuing tax-effectiveness of the company car as a perk.

● Stimulation of private buyer purchases through discounts, low-interest financing and the marketing of budget car models.

● Average earnings continuing to outpace the retail price index.

The report also gives a warning that the start-up of Nissan's car plant in the north-east of England this year could mark "a turning point" in the UK car industry's history. It would place UK producers under greatly intensified pressure because of its decision to advance the assembly programme of 24,000 units a year to at least 100,000 a year from 1991.

The intensified competition in the UK should be offset partly, however, by increased exports. The new Jaguar XJ6, Austin Rover's return to the North America market with the Sterling, and the export of UK-built Peugeot 309s should result in overseas sales from Britain rising from 195,000 units this year to 210,000 in 1987.

Luxury model boosts profits of Saab group in Britain

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

THE UK subsidiary of Saab, the Swedish cars group, will boost pre-tax profits by 30 per cent this year from the 1985 level because of the success of the group's new luxury model, the 9000, says Mr Christer Skogsborg, managing director of Saab Great Britain.

Last year, Saab GB's taxable profit slipped from £2.425m in 1984 to £2.3m, while the company's turnover increased from £75.8m to £84.4m.

In spite of the decline in profit, the UK subsidiary paid its Swedish parent an increased dividend of £1.615m for 1985 against £1.4m for the previous year.

Mr Skogsborg pointed out that the sharp drop in the value of the pound against the Swedish currency would make this year's UK company's profits look a lot less impressive when they were consolidated into the parent group's accounts.

"The drop in the pound is a very real problem for all importers at the moment," he points out.

However, the UK subsidiary has been profitable for the past five years and is making a respectable 19 per cent return on capital employed.

The UK is Saab's second-largest export market after the US and this year has been allocated 9,500 cars. However, sales should be about 10,000 as stocks are depleted, against 8,375 in 1985.

Apart from higher unit sales, Saab GB is benefitting from a "richer mix" of models because 40 per cent of this year's registrations will be of the higher-value 9000 range compared with 30 per cent in 1985.

The UK's allocation next year is likely to be about 10,000 cars, said Mr Skogsborg.

● General Motors, the Vauxhall-Opel group, is to offer through its 700 UK dealers British Telecom car telephones as optional equipment.

TV buys Korda film library

BY RAYMOND SNODDY

CENTRAL Independent Television has bought one of Britain's most famous film libraries – the 33 feature films made by Alexander Korda.

The films include The Private Life of Henry VIII with Charles Laughton, Knight Without Armour with Marlene Dietrich, and Anna Karenina, starring Vivien Leigh and Ralph Richardson. Central did not disclose the purchase price but it is believed to have been between £1.5m and £2m.

Mr Robert Phillis, managing director of Central, the Midlands ITV company, said yesterday that the collection was an excellent commercial asset "at a time when we anticipate a growing demand for quality material of this type throughout the world programme markets." Many of the films may be shown on ITV or Channel 4 but Central makes it clear they will be available to anyone wanting to purchase the rights, including the BBC.

Central believes it is the first ITV company to buy such a library. All but one of the films were made between 1933 and 1948

Target to save Arts Channel is £850,000

By Raymond Snoddy

THE FUTURE of the Arts Channel, the British cable television channel, hangs in the balance as the company tries to raise new finance. Mr John Griffiths, chief executive, has set himself the target of raising between £700,000 and £850,000 before the end of the autumn.

Mr Griffiths, a former president of the Liberal Party, said yesterday that £800,000 had been promised from old and new shareholders but it is conditional on another £150,000 being raised to put the channel on a proper financial footing.

The Arts Channel, launched in September 1985, has suffered from the slow spread of modern multi-channel cable networks in the UK and from being "a minority of a minority." At the moment, there are probably only about 9,000 homes on new cable networks receiving three hours a day of arts programmes from the channel.

In addition there are agreements for the Arts Channel to be shown in Sweden and Finland. The present shareholders include W. H. Smith, Equity and Law, Television South and Commercial Union.

Mr Griffiths says the channel could become profitable in 1988. The problems at the Arts Channel come as the much larger Children's Channel, owned by British Telecom, D. C. Thomson, the Scottish publisher, and Thorn EMI is also trying to raise more money from existing and new shareholders.

Starstream, the company which runs Children's Channel, is believed to be trying to raise between £1.5m and £3m following heavier than expected losses.

Mr Geoffrey Pattie, Minister for Information Technology yesterday appealed for investors to recognise the potential in cable television. The Government, Mr Pattie said, had demonstrated its support for the fledgling industry.

"What it now needs is a more sympathetic attitude on the part of professional investors," added Mr Pattie at a seminar organised by the Cable Authority and the Institute of Chartered Accountants.

UK NEWS

Wales loses two further pits and 1,300 jobs

BY ROBIN REEVES, WELSH CORRESPONDENT

BRITISH COAL yesterday announced the closure of two South Wales collieries with the loss of more than 1,300 jobs. It blamed exceptionally severe geological problems which had caused the two pits, Cwm and Nant Garw to lose in excess of £10m in the past six months.

News of the closures was given to mining union representatives at a review meeting with British Coal management in Cardiff yesterday. Although strongly disagreeing with the decision, Mr Des Dutfield, the South Wales miners' president, said that his union would not fight it by using the closure appeals machinery.

The closures will bring to 13 the number of South Wales collieries shut since the end of the year-long miners' strike in March last year. It has meant a total loss of some 7,500 jobs in the coalfield.

British Coal emphasised that the 770 miners at Cwm and 560 miners at Nant Garw would be offered alternative jobs or the opportunity to take advantage of the enhanced voluntary redundancy terms which are to be replaced in March by lower benefits.

The two pits to be closed also have associated with them National Smokeless Fuels' ovens employing a total of 500 workers. The ovens have already had to start using consignments of coking coal because of a shortage of locally produced supplies.

Mr Cliff Davies, British Coal's South Wales director, paid tribute to "a wholehearted effort by miners and management" at Cwm to wrestle with the deteriorating geology. Despite investment of £5m in a high-technology coalface and surface refinements to improve coal handling Cwm had run into serious output and development problems.

In the first six months of this year, Cwm lost £7m and, with an average deficit of £67 on each tonne of coal produced, it was the heaviest lossmaking pit in Britain.

Maxwell thinks Games deficit can be cleared

BY JAMES BUXTON, SCOTTISH CORRESPONDENT

MR ROBERT MAXWELL, the publisher who is chairman of the company which ran the Commonwealth Games in Edinburgh earlier this year, claimed yesterday that the chances of the company avoiding going into liquidation were "good."

He said the Commonwealth Games Company had reduced its deficit from £4.3m to £3.5m by rejecting charges presented by Edinburgh District Council, other local authorities and Edinburgh University. He did not elaborate.

In addition, he said, the company had received a contribution from the Japanese philanthropist Mr Ryiochi Sasakawa. He himself had also made a contribution. He did not quantify either, beyond saying that Mr Sasakawa's gift was worth "millions."

Nor did he explain why these contributions were not being included in the reduced deficit figure.

The company now had a few more days to complete fund-raising. He made it clear that he still hoped to obtain a government contribution though the Government has consistently ruled this out.

If the company completed the fund-raising "everyone would be paid. If not, we will put the company into liquidation."

Mr Maxwell said the company had yet to receive a contribution from the 32 commonwealth countries which boycotted the games.

Ships get help from aviation technology

By Kevin Brown
Transport Correspondent

A RESEARCH team set up by a group of British companies is studying the possibility of using advanced aviation technology to design a revolutionary computer-operated control system for ships.

The Trade and Industry Department agreed yesterday to contribute 45 per cent of the costs of the £300,000 project in the hope that it will help British ship owners to compete with low cost Third World and Soviet-bloc shipping.

The research team was set up by British Aerospace and Marconi in collaboration with J. Marr and Son, a Hull-based shipowner, and Atkins Research and Development, which specialises in technology application.

The team hopes to demonstrate the feasibility of adapting the design system used by British Aerospace in the development of the Experimental Aircraft Project (EAP), demonstrated at the Farnborough Air Show last month.

The system is said to have cut the time needed for design work on the EAP to less than 10 per cent of the man hours required for the Tornado, now in service with the RAF.

A technology demonstrator intended to show how the system would operate is being built by British Aerospace, and is expected to be ready early next year. Further finance would then have to be secured to produce an operational ship.

Mr Doug Clarke, the project manager, said ships controlled by an integrated computer system could be operating commercially in about 14 years.

Councils pressed to seek 'impossible' pay deal targets

BY PHILIP BASSETT, LABOUR EDITOR

THE GOVERNMENT puts pressure on local authorities to achieve pay settlements which are impossible to negotiate, according to the senior full-time local government employers' negotiator.

The statement by Mr Brian Rusbridge, secretary of the Local Authorities Conditions of Service Advisory Board, the local authorities umbrella negotiating body, is likely to be controversial. This is especially true in the light of the council manuals' recent 6.7 per cent pay deal, which was sharply criticised by ministers as too high.

Mr Rusbridge says that governments of all political persuasions are anxious about local government pay because of the number of workers involved – council manuals total more than 900,000 – and because negotiations influence the economy generally and set off significant pay trends.

Writing in the Lacsab journal, Mr Rusbridge says that Whitehall tends to regard pay solely within the context of a single year, without looking at what has gone before or the pattern for the future.

In the context of current bargaining, he says, "few would doubt that it makes sense to get wage increases in step with inflation, but it cannot be done at the stroke of a pen."

Though he accepts that many local authority employers are tempted to look only at the immediate, and ignore the longer term, Mr Rusbridge says that the gradual emergence of pay bargaining being seen in a wider context is "encouraging."

He adds: "There is a realisation that arriving at a simple percentage increase in pay, viewing each year in isolation with little regard for the consequences, is no longer good enough."

Local authority employers have made an "honest endevour" in 1985 and 1986 settlements for manual workers to improve the position of the lower paid, but Mr Rusbridge says that it is difficult to achieve such results without being seen as trend-setters for the whole economy's pay round.

Lansing lowers costs

BY NICK GARNETT

LANSING, the UK's largest fork lift truck maker, yesterday announced a £14m investment programme to lower costs and improve production efficiency at its plant in Basingstoke, west of London.

The programme, which will run for just more than four years, is aimed at cutting stocks by two thirds and reducing production lead times by up to 60 per cent.

The company intends cutting production costs by 15 per cent at Basingstoke, partly through lowering the time it takes from start to finish in building a lift truck from 12 to about four weeks.

Lansing has a production site in Wales as well as a facility at Roxheim, West Germany. It also has a plant at Montataire in France since its purchase last year of Saxby of France. It is the sixth biggest producer in the western world.

CBI urges £1bn extra cash for infrastructure projects

BY HAZEL DUFFY

THE Confederation of British Industry, (CBI), called yesterday for around £1bn a year to be added to government public spending programmes unveiled nearly a year ago.

Its verdict on the Government's record for spending on infrastructure: "So far, so good, but there's not enough of it."

It argues that more capital spending on Britain's roads, housing, water and sewerage services and inner cities is highly effective in terms of the rate of return that it generates, and that spending of this type will also help to bring down unemployment.

It also argues that a long-term programme of spending to improve the infrastructure is more cost effective than the stops and starts which have normally characterised government attitudes to this area.

The report is the third in the series on The Fabric of the Nation. Since the last report in November, the Government has approved the Channel Tunnel, a £200m bridge is to be built with private-sector funds across the River Thames east of London, the £1bn London orbital motorway (M25) is on the verge of completion and some £60m extra has been allocated for four new urban development corporations.

Specifically, the CBI calls for:

- A further £250m a year on roads. This would provide better repair and maintenance, as well as new construction, of motorway and trunk roads and improved maintenance of local authority roads.
- Consideration of further bridge schemes, in particular a third Thames bridge at Reading, west of East London river crossing, and a bridge from the Kyle of Lochalsh to the Isle of Skye, in the Scottish Highlands.
- Better road and rail links to be co-ordinated with port development.
- Increased spending of £50m a year above the planned totals on water services. For sewers, a priority is to allocate more resources to surveying the system. The increase in spending on both these services should not be passed on to customers through increased prices.
- More spending on the inner cities, to include a doubling of the derelict land grants allocation to about £150m a year; the same amount to be allocated jointly to Urban Development Grants and the proposed Urban Renewal Grant; Urban Development Agencies to be set up to improve delivery of the urban programme
- At least £300m net to be spent setting up a Building Improvement Programme, which would provide money for improvements to housing (mostly local authority), public buildings and other public amenities.
- An extra £30m a year to go on restoring expenditure on housing associations to its 1985-86 level.

Fabric of the Nation III: Building a better Britain. CBI, 103 New Oxford Street, London WCIA IDU. £3.50

UK NEWS

Inquiries pour in for British Gas sell-off

MORE THAN 3.4m people have already registered interest in the British Gas sale, and inquiries are pouring in at the rate of 10,000 an hour, according to Mr Peter Walker, the Energy Secretary, writes Lucy Kellaway.

At the official opening of the British Gas Exhibition at Altrincham, Mr Walker forecast a bright new era for British Gas, freed from political interference.

By transferring ownership to "a great mass of people, employees and institutions," British Gas would be able to make decisions to negotiate contracts and even to fix their own salaries "without the interference of some politicians."

The flood of inquiries about the flotation was much bigger than the Government had expected, Mr Walker said. Even though the sale is still six weeks away, it has attracted half as many people again as bought shares in British Telecom when it was privatised in 1984.

The number of inquiries about the sale has accelerated sharply in the last week rising from about 4,000 calls an hour. Since then, the TSB flotation has whetted the appetite of private investors as profits of 180 per cent on the shares were made by more than 3m shareholders.

□ **FURTHER** preparations to sell off the 10 water authorities in England and Wales, the most contentious of all the Government's privatisation proposals, are likely to be delayed until after the next General Election.

There was no question of full-scale flotation before the election because the necessary legislation would have been needlessly provocative and time-consuming in what will probably be the last session of this Parliament.

□ **INVESTORS** in Personal Equity Plans (PEPs), a scheme to grant tax privileges to small individual shareholdings, will be permitted to hold shares quoted on the Unlisted Securities Market, the Stock Exchange's second tier market for smaller or younger companies. The Treasury has decided to relax some of the conditions for investing in the scheme, originally announced in the March Budget, so as to make it simpler and more flexible.

□ **EMPLOYMENT** in the computer software industry grew by 11 per cent in 1985, a more rapid increase than in recent years, but the industry is still running up against skill shortages, according to the annual report of the Computer Services Association. "The vast majority of CSA companies report they are still failing to recruit the full number of new employees they require," it says.

□ **PLANS** were unveiled to sell stocks and shares for the first time via building society branches, taking advantage of new powers available under the Building Societies Act. Bristol & West Building Society and London stockbrokers Laing & Cruickshank announced they had reached an agreement to launch two pilot schemes.

□ **FARMERS** now owe a record £8,000m and up to 20,000 of them are in serious financial difficulties, the National Farmers' Union said. One leading bank has estimated that 10 per cent of Britain's 240,000 farmers are now in severe trouble – hit by depressed markets, falling land prices and uncertainty about Common Market plans for the future.

□ **MOTORING** groups and the Department of the Environment have joined forces to help guide motorists through the changeover to unleaded petrol. They have drawn up a comprehensive list of cars which can use the new petrol – and those who should steer well clear of it. Drivers will be able to get the list from motoring organisations and dealers.

□ **DIRECT** surface rail services from Heathrow Airport to central London are urged by the airport's consultative committee. It wants the existing underground rail link extended further to the Perry Oaks end of the airport and motorways that lead to Heathrow widened.

Talbot to assemble new Peugeot at Coventry

BY ARTHUR SMITH, MIDLANDS CORRESPONDENT

PEUGEOT TALBOT, the UK car subsidiary of Peugeot of France, told the workforce yesterday of £20m plans to assemble a new car at Ryton, Coventry, in the West Midlands.

The new car could create up to 1,000 jobs and bring double shift working to the Coventry factory for the first time for more than a decade.

The middle range model, code named the D-60, will give Peugeot a competitor in the key fleet sales market against Ford's Sierra, Vauxhall's Cavalier and Austin Rover's Montego.

Production will start next autumn ready for launch early in 1987. The new model forms part of Peugeot Talbot's drive to achieve a UK market penetration of 8 per cent by the end of 1988 – almost double the 4.1 per cent achieved last year.

The car, likely to be launched by Peugeot in France six months earlier than in the UK, has still to be given a product name.

Mr Geoffrey Whalen, managing director of Peugeot Talbot UK, said last night, that the decision of the French parent to put the new model into Coventry was a demonstration of its commitment to the UK, and recognition of the productivity and quality performance already delivered.

The Government is contributing £1.5m under regional selective assistance to the £20m investment over the next two years. It follows spending of £30m by Peugeot over the past two years at Ryton to introduce the 309 range, launched last February.

The success of that model has meant an increase in the Ryton labour force from 1,400 to 1,900 this year as production has been stepped up progressively to the present single shift capacity of 1,250 cars a week.

Peugeot expects sales of the 309 to rise further next year with the launch of the three-door versions of the model, but the introduction of a second shift is likely to be held back until August when the D-60 goes into production.

Gaining Peugeot backing for the new model is recognition of the turnround achieved by Mr Whalen to raise dramatically productivity and quality. It reverses the decline of the Coventry operation (formerly Chrysler UK) over the past 10 years.

Peugeot Talbot was knocked off course in the first half of this year from returning its forecast modest profit by problems with the contract to supply car kits to Iran.

The £8.3m pre-tax loss was attributed in the main to disruption to supplies to Iran caused by the war with Iraq and the fall in the price of oil. Revenue from the contract this year is likely to be only £20m against the £87m last year and the £130m of just a few years ago.

The success at Ryton, however, has cushioned the impact of the Iran problems and the contract now accounts for only around 3 per cent of turnover against the 40 per cent of three years ago.

Only about 100 workers are now engaged on work for Iran at the Stoke engine plant, Coventry, but capacity is available to step up output quickly on what Peugeot Talbot still regards as profitable long-term business.

GOVERNMENT ACCUSED OF ISSUING NEW CONSTITUTIONAL DOCTRINE

Clamp on evidence to MPs

BY JOHN HUNT

THE GOVERNMENT has rejected complaints from the House of Commons select committee on defence that it was unable to call civil servants to give evidence during its inquiry into the Westland Helicopter affair.

In a move which could bring it into conflict with other select committees, the Government has instructed civil servants that if they do appear before these Commons "watchdogs" they should refuse to answer questions about their own conduct, or that of other civil servants.

The Government insists that this is the traditional course. But last night, Dr. John Gilbert, the senior Labour member of the defence committee, said the Government seemed to have introduced a new constitutional doctrine. If civil servants were unable to answer such questions, then who could?

Dr. Gilbert said he would be raising the matter at a meeting of the committee on Wednesday next week.

The Government also rejects the defence committee's complaint that it was "extraordinary" that no disciplinary action was taken against civil servants in connection with the leak of the letter from Sir Patrick Mayhew, the Solicitor General, during the Westland row.

It merely comments that individual civil servants are accountable ultimately to ministers and that there are established procedures for internal inquiries and disciplinary proceedings.

In its reply to the defence committee, the Government says it "does not believe that a select committee is a suitable instrument for inquiring into or passing judgment upon the actions or conduct of an individual civil servant."

The Westland dispute arose last year when the then Defence Secretary, Mr Michael Heseltine, wanted a European solution for the company while Mr Leon Brittan, the Trade and Industry Secretary, favoured the American Sikorsky takeover.

The leak occurred in the Solicitor General's letter in which he said that a version given by Mr Heseltine contained "material inaccuracies." Both Mr Brittan and Mr Heseltine resigned over the affair.

Individual civil servants were not permitted to give evidence to the defence committee investigation, but Sir Robert Armstrong, head of the home Civil Service and Cabinet Secretary, appeared instead.

The Government argues that as witnesses, civil servants would be constrained by their duty of confidentiality and by instructions from a minister. They are, therefore, unable to speak freely in their own defence.

An inquiry into the actions and conduct of a civil servant, conducted in public and under the rules of privilege before a committee, would give that civil servant no safeguards and no rights even though his reputation and career might be at risk. The Government says this reinforces the case for not blurring the traditional line of accountability from civil servants to ministers

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Stronger role seen for Scottish agency

FINANCIAL TIMES REPORTER

A GOVERNMENT-ordered review of the Scottish Development Agency (SDA) has concluded that it plays "a valuable role in the economic and environmental regeneration of Scotland."

Speaking at a press conference in Glasgow yesterday to present the findings of the review, Mr Ian Lang, Scottish Industry Minister, said that on the whole the agency had been given "a celan bill of health."

The review, which took six months to complete at a cost of £500,000, was concerned with "the efficient use of government resources." He said that the role of the agency, which was set up in 1975 to develop the economy and improve the environment in Scotland, would be strengthened in future.

The review calls for more close monitoring of the SDA by the Scottish office to make sure, "that the policies it is pursuing conform to those of the Government; that its policies reflect the priorities of the Government and that tax payers' money is being used in a sensible way."

As a result of the review, the SDA would be given "a change of emphasis" with its aims and objectives more clearly defined, he said.

"The agency will, increasingly, be expected to apply commercial criteria to any future investments it makes, without inhibiting creativity and innovation" Mr Lang said. When the agency was established it was given wide functions.

ES2 group ready to deliver its first commercial chip

BY HAZEL DUFFY AND TERRY DODSWORTH

EUROPEAN SILICON Structures (ES2), the pioneering pan-European semiconductor company, will deliver its first commercial microchips this month only a year after its launch as a Europe-wide response to the challenge of US and Japanese electronics manufacturers.

The deal, with a large but unidentified French company, is the culmination of 12 months of building ES2 into an organisation with facilities spread across Europe.

Almost 150 engineers and semiconductor designers of various nationalities are now working for the company, which was founded by a group of senior executives from the European electronics industry, including Mr Robb Wilmot, the architect of the recovery at ICL, the UK computer group.

The first semiconductors are being produced in California, where 10 ES2 engineers are refining the manufacturing techniques in part of a plant hired from the Exel electronics company. Towards the end of next year output will be switched to a new factory now under construction at Aix-en-Provence in southern France.

Speaking at the opening of the group's design facility in Bracknell, Berkshire, yesterday, Mr Jean-Luc Grand-Clement, ES2's chairman, conceded that the company was about three months behind its original manufacturing targets. But he said that despite some teething problems the new manufacturing technology it was using for the production of chips was working satisfactorily.

There will also be a delay of about three months in bringing the French manufacturing plant on stream, caused mainly by planning problems. Mr Grand-Clement insisted, however, that ES2 was still on target with its financial plan, which envisages break-even two years from now on sales of $25m. Turnover is forecast to rise to $100m by 1990 – a growth rate that would make ES2 one of the fastest-growing new ventures ever recorded in the electronics industry.

ES2 is pinning its expansion hopes on the development of a new market for rapidly-produced customised chips. These kind of semiconductors are needed increasingly by companies for specialised applications, but are difficult for larger chip manufacturers to produce because they do not fit easily into the production processes of a large-volume plant.

ES2 claims that it has the design and manufacturing technology available to reduce the design and production process for these products radically.

It is now generating steadily increasing revenues from the sale of its design and training services throughout Europe, and Mr Wilmot believes that despite the delays in setting up manufacturing, it is still around 18 months ahead of potential competitors in customised chip technology.

Sealink withdraws plans for job cuts

By Charles Leadbeater, Labour Staff

SEALINK UK yesterday withdrew its plans for 203 redundancies on its two ferries at Folkestone on the south coast of England, to allow further negotiations to determine how costs could be cut.

This concession by the company, following its decision last week to reinstate 402 staff it dismissed under a rationalisation plan for its Channel Islands service, clears the way for a settlement to the dispute which has halted the company's sailings to continental Europe and Ireland.

The redundancies on the Channel Islands service sparked the dispute before negotiations with the unions – which started more than 3 weeks ago – were hampered on the company's plans for redundancies at Folkestone.

Sealink UK still wants 35 redundancies among officers and ratings on its freight service from Holyhead on the Welsh coast. It is understood that the officers union, Numast, would be happy to allow this issue to be settled through local negotiations. However, it is unclear whether the National Union of Seamen (NUS) will want to ensure that an agreement on Holyhead is part of a national settlement.

The company resumed talks with the NUS yesterday and will meet [illegible] meeting with the aim [illegible] an agreement to allow [illegible] return to work.

The National Union of Railwaymen, which has 2,000 members in Sealink UK, met the company and Channel Island Ferries to try to improve terms and conditions on the new service to the Channel Islands. NUR members who do shore jobs will remain as Sealink employees but will be sub-contracted to the new service.

Channel Island Ferries yesterday suspended sailings of the Corbiere, the only ferry operating the new service, until it can unload cars and cargo at Guernsey in the Channel Islands. The Sealink UK ferry, Earl William, which is being occupied by its crew, is blocking the offloading ramp and dockers are refusing to handle cargo from the Corbiere.

The Guernsey Chamber of Commerce, meanwhile, warned that a continuation of the dispute would lead to lay-offs in horticultural and tourist companies on the island.

NFC buys Birds Eye distribution business

BY CHARLES BATCHELOR

NATIONAL FREIGHT Corporation (NFC), the employee-owned transport group, is to buy the distribution business of Birds Eye Walls from Unilever, the Anglo-Dutch group.

The Birds Eye distribution company employs 1,000 people, operates more than 500 vehicles from seven depots and has annual sales of £40m.

NFC's existing distribution activities, which include the SPD business bought from Unilever earlier this year, employ 4,000 people and has a fleet of 1,400 vehicles and sales of £100m.

NFC declined to value the deal or give details about the profitability of the operations it was buying. Agreement on the deal has been reached, but the transfer will not take place until January 1, 1987.

The Birds Eye Walls fleet supplies its own branded products to retailers and NFC is considering whether to distribute other products through its vehicles.

NFC said it already had experience of the temperature-controlled fleet market, with customers such as Sainsbury's and Van den Berghs, the margarine manufacturers.

The workforce of Birds Eye Walls will be given the opportunity to buy shares in NFC. It is widely regarded as one of the most successful examples of employee ownership and counts 80 per cent of its 26,000 workers as shareholders.

NFC first formally established a distribution division last October from the BRS operation, adding SPD in January 1986. It bought a US distribution company, Dauphin Distribution Services, last September.

APPOINTMENTS

Reorganisation at Courtaulds group

Mr Sipko Huismans has joined the board of INTERNATIONAL PAINT as chairman-elect and Mr Michael Pragnell has become managing director. Mr Eryl Morris, who will relinquish his position as chairman of IP next April, has joined the BCL board and Courtaulds Textiles Group board. Mr Allan Nightingale has become chairman as well as chief executive of the textiles group. Mr Harold Beauley has been appointed chairman and chief executive of Courtaulds Fibres which now comprises the group's Courtelle and Viscose staple businesses.

★

Mr Gordon Bond has been appointed to the board of THE WIGGINS TEAPE GROUP as deputy chief executive of carbonless papers operations. Mr Tony Swainston will join as chief executive of the UK and overseas merchanting operations. He is managing director of Lex Vehicle Leasing and will succeed Mr John Berry who has decided to leave early in 1987. Wiggins Teape is a subsidiary of B.A.T. Industries.

★

Mr David Tapper has been appointed an executive director of HAMBROS BANK in the new treasury and capital markets division.

★

Mr Peter Dodd has been appointed sales director of the ESAB GROUP (UK). Following the setting up of a joint venture with AGA to market gas equipment, Mr Neil Dobson has been appointed managing director, ESAB Gas Equipment.

★

Mr Robert MacKenzie, marketing manager of WARNER HOLIDAYS, has been appointed marketing director and Mr Bob Daykin, general sales manager, has been made sales director. Mr Bob Greenfield, marketing director, has been appointed marketing director of the entertainment and catering division of Mecca Leisure Group.

★

Mr Gordon H. E. Thomis has been appointed deputy chief manager of BANCO DI ROMA London branch, following the retirement of Mr P. A. Hedge. His responsibilities will cover UK financial institutions and multinational and international companies.

★

Mr Arnold Morton, City treasurer of Coventry City Council, has been elected president of the CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTANCY.

★

At VINTEN GROUP Mr Ronald A. Marler has joined the board as a non-executive director and deputy chairman. Mr Marler, who retired from Electrocomponents earlier this year had been that company's chairman for over 12 years. He continues as chairman of Kode International and is a director of Manders (Holdings) and Fleming Technology Investment Trust.

★

Mr Julian Edwards, who until recently worked for Land Securities, has been appointed a director of TISHMAN OVERSEAS PARTNERS (UK) and senior vice president of Tishman Overseas Partners.

★

Mr Peter MacLean has been appointed managing director of SHERWOOD LOCUM, a new company formed following the acquisition of the Salisbury-based computer disaster standby operation, Locum Data Centres, by Sherwood Computer Services. He was the director responsible for Sherwood's computer operations and technical support activities, and for the company's Lloyd's underwriting agents business. He was also responsible for developing real-time software for Lloyd's Motor Syndicates. He will retain his responsibilities as group operations and technical director.

★

Mr Mark Billing, marketing director of Dorma, has been appointed managing director of CV NOVA, a new company formed within the CV home furnishings division of the Coats Viyella Group. In addition to retaining his position as marketing director of Dorma, Mr Billing also takes on responsibility for the newly-formed Dorma France SA.

★

RANSOMES & RAPIER has appointed Mr F. Derek Davies as managing director. He was formerly with the Bowater Group. Ransomes & Rapier is a subsidiary of Central & Sheerwood.

★

Mr Jeff Pitman has become managing director of FACTRON SCHLUMBERGER EUROPE. He joins from its sister company Sentry, specialists in component test technology.

★

Mr David C. Huntington has been appointed a managing director of Lloyd's brokers, BRADSTOCK, BLUNT & CRAWLEY. He is responsible for all office organisation and administration.

★

OUTHWAITE & GREEN has appointed Mr Michael Ellis as deputy underwriter on Marine Syndicate 321.

★

GODSELL (STERLING), formerly Godsell (LDA), has appointed Mr Ian Collett its managing director. Mr Graham Kidson, formerly managing director has become chairman. Godsell (Sterling) is a subsidiary of Exco International.

★

Mr Philip G. Williams has been appointed sales director of MULTISETS, business forms subsidiary of Williams Lea Group. He was customer service manager of Williams Lea & Co.

★

Following the acquisition of swimwear manufacturer Speedo (Europe) by the JOHN CROWTHER GROUP, Speedo's managing director Mr Richard Tew has been appointed to the group's executive board.

★

COOPERS & LYBRAND ASSOCIATES has appointed Mr Ron Williams as a senior adviser to its human resources consulting group. Until recently the director of the Office of Manpower Economics, he joins C&L at a time when the firm's work in the area of remuneration consultancy services is expanding. Mr Williams will be involved both in the technical development and marketing of remuneration consultancy services and in carrying out high-level client assignments.

★

Mr John Huckle has been appointed finance director of WILLS GROUP. He has joined from The Burton Group where he was merger and acquisitions manager.

★

Mr George Randles has been appointed managing director of FERRAG, Warrington. He was deputy managing director.

★

Mr Ian Hay Davison, adviser to Arthur Andersen & Co, has been appointed a non-executive director of MIDLAND BANK.

CONTRACTS

£10m West End bank dealing facilities

SIR ROBERT MCALPINE MANAGEMENT CONTRACTORS has been awarded a £10m contract for refitting a central London office block. The work will be mainly on the upper four storeys of 180 Oxford Street, which is a listed building. The client is Credit Suisse First Boston. The contract, to provide new bank dealing facilities, involves refitting 11,700 sq m of offices and installation of an air conditioning system, computer equipment, dealers desks and associated data and telecommunications wiring. A tight programme has been prepared as work must be completed within a 25-week contract period.

★

The Welsh Development Agency has taken another step in the continued development of Baglan Industrial Park, near Port Talbot, by awarding a £2m contract for the building of another six advance factories on the site. Construction work has been started by ANDREW SCOTT CIVIL ENGINEERS, Port Talbot, and work is expected to be completed by August of next year. This is the second phase of factory building on the estate and the new units range in size from 10,000 sq ft to 25,000 sq ft and provide a total of 95,000 sq ft of industrial floor space.

★

BOVIS CONSTRUCTION has been awarded a contract worth £1m to build 43 sheltered flats for the elderly at Uckfield, East Sussex, for Concept Housing Society. The 4-storey "T"-shaped block will provide one- and two-bedroomed flats and lies alongside the River Uck. The project is due for completion in July 1987.

★

TILBURY CONSTRUCTION has gained contracts worth over £6.5m. The largest, worth over £2.6m, involves central heating and roofing of 32 blocks of flats in Hackney. A further contract worth £1.7m will provide for 42 homes to be built in Coulsdon. The company has also been awarded a contract worth £1.35m for maritime work to be carried out in the Portsmouth area and a £133,000 order for a safety netting installation at Bristol Prison. Tilbury Construction (City) has won a contract, worth £237,000, to fit out a Thai restaurant on Fulham Broadway.

★

Contracts worth £3.6m won by DOW-MAC CONCRETE, a member of the Norcros Group, include a number of offices. Of the 11 orders, the largest, worth £875,000, is for pre-cast concrete products to be used in an office/car park complex for Standard Life at Croxley Green, near Watford. Dow-Mac is also supplying £140,000 worth of Spanframes and Double Tee beams for a smaller Standard Life office in Abingdon. Beams and other concrete structures worth £850,000 will form a multi-storey car park being developed by MEPC at Tunbridge Wells. Special reinforced flooring units are to be made in a £400,000 order for a further extension to BBC Television's Centre in Wood Lane, White City.

★

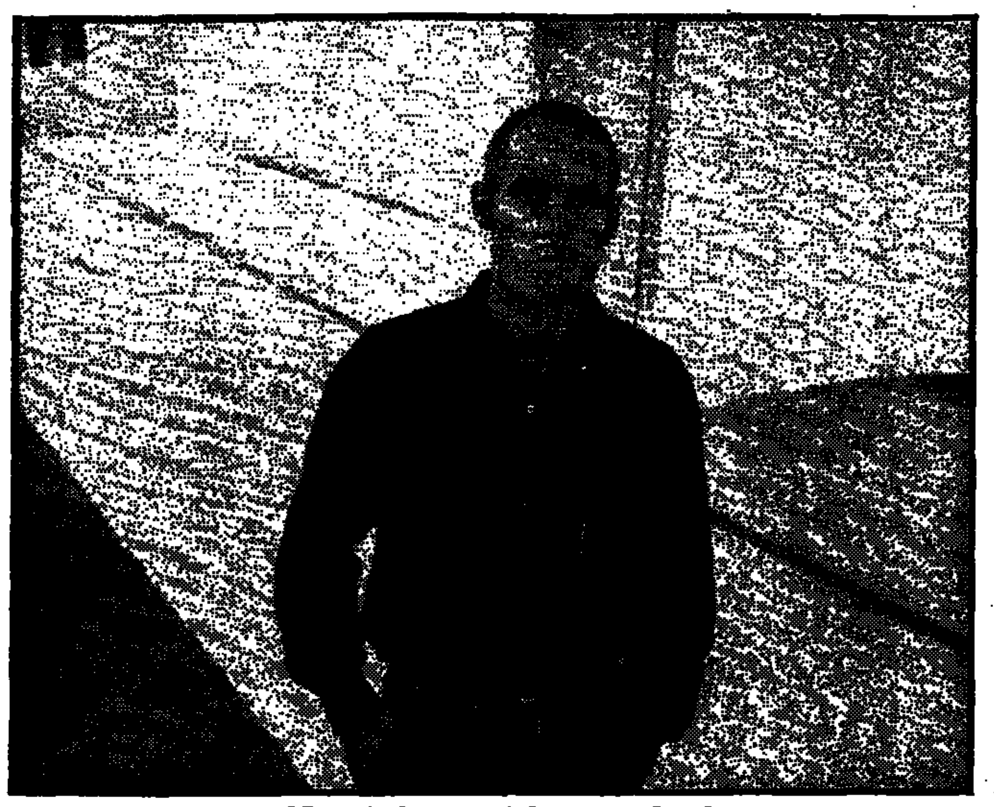
ASHBY & HORNER has commenced construction on an office, retail and residential development by Highambury House at 9-13 Carthusian St, EC1, under a £4.7m contract for completion in May 1988. This development will comprise air-conditioned office accommodation of about 24,000 sq ft, arranged on lower ground, ground and four upper floors. It will include two ground floor shop units together with 10 apartments on the fifth and sixth floors. The specification includes floor wiring to service computer technology, three high-speed passenger lifts, air-conditioning and raised service floors

THE ARTS

London Galleries: British sculptors/William Packer

Creators of the shape of space

Suddenly the London galleries again seem full of sculpture by British artists, and though that of itself is no strange thing, given how high the reputation of contemporary British sculpture stands in the world, the coincidence of shows by such current luminaries as Anthony Caro and Richard Long constitutes something of an event. It is one, indeed, which has a certain critical piquancy, for in Caro, so long the guru of the St Martin's sculpture school, we have the master; in Long we have the sometime pupil but scarcely the disciple. And yet they stand together more complementary than contradictory, true heirs to the modern tradition in British sculpture that takes its line through Henry Moore, to whom Caro was for a while assistant in the early 1950s, and Jacob Epstein. Caro and Long are the two living British sculptors who now enjoy the widest international celebrity, their work in every great collection from Paris and New York to Tokyo.



Richard Long in front of his long crystal sculpture

Caro it was who, in the facile phrase of some 20 years ago, "took sculpture off the pedestal and onto the floor." His actual achievement was somewhat more substantial, if critically elusive, for in rejecting the modelled form and the directly figurative reference in favour of apparent abstraction and the materials and assemblage techniques of the welding shop, he gave himself the opportunity to break sculpture open, not merely as idea — the idea of the space within the form was hardly new — but as inevitable and necessary practice. Space itself rather than the material form was now the stuff to be modelled and articulated, and Caro set about it with the authority and improvisatory exuberance that still characterise his work. But the work today is more various, quixotic and ambiguous than it then was: for then the creative demonstration had still to be made that the space occupied by the work was no longer hermetic and distinct but open and available to the viewer to move into and occupy, if only in the imagination, as direct physical experience.

By accepting the artist's invitation to move into the work, the viewer had to allow the physical space of the sculpture to impinge upon his own, which was more daring a commitment than it might now seem. It was an invitation which many younger artists were not slow to take up and pass on through their own work. There were of course many, at St Martin's and elsewhere, who stayed close to the purely formal and material of Caro's innovations—the Tuff Boot school of welders, slicers and redisposers—but it might well be that those who were most obviously committed to the conceptual, who seemed at the time to be most extreme in their rejection of what Caro might be held to represent in formal terms, were in essence the closest to him.

Even while still a student at St Martin's in the late 1960s Richard Long had taken himself out of the workshop and into the fields and was working not with material that he could modify or alter but with whatever was to hand. The invitation, by implication, was to go out with him, to move through the same spaces and configurations of the landscape, to mark the fleeting evidence of human presence and passage, and to savour the particular, personal experience.

But what could possibly be the work of art? Might it be the line of footsteps through the grass; or perhaps the bare thought of the walk itself that was real enough an experience but left no trace; or a simple pile of stones left behind in some wild place? And how should such works be celebrated? By a line drawn on a map perhaps; or a photograph or two; or a list of objects found along the way; or particular things that caught the eye; or trophies brought back into the gallery? For Richard Long they have been all these things and a characteristic selection now fills the two Anthony d'Offay galleries in Dering Street (off New Bond Street W1, until November 12).

The smaller gallery has a simple *ad hoc* display that includes a couple of photographic pieces, a text, a map and a mud circle, but the exhibition proper is in the larger gallery upstairs across the road. The sculpture as such amounts to a single piece: a carpet of fine marble chippings that covers the greater part of the floor of the two principal rooms, running them together by the way it laps around the door-frame between them. It is elegant and even impressive in its way and typical of Long in (to use the current jargon) his site-specific mode, in which he responds uniquely to a given space. But rather more impressive for once, and certainly more intriguing, are the text-pieces on show in the inner sanctum. A bare description cannot give a fair sense of their strange, delicate play upon the imagination. *A Wind Line Across England* is merely a row of 14 arrows noting the ever-shifting direction of the wind every 10 miles on a walk from coast to coast; *Ten Mile Places* is simply a list of incidents and objects noted at those intervals on a long-walk through the south-western counties; and *From Tree To Tree* is just that—from palm, crab apple and oak to sycamore and redwood over 80 miles.

These litanies are not consciously poetic and would be intolerably affected if they were so, but they do set up strange poetical resonances that hark back far into our cultural past, to the ancient literature of Wales and Ireland, full of lists and riddles and magic incantation: "A strong smell of silage . . . a mole-hill . . . beneath a rookery of seven nests . . . a flat dry straight empty road."

Anthony Caro's exhibition is split between Waddington and Knoedler in Cork Street (until October 25), with a large single outlyer on the Economist Plaza off St James's, tucked in behind Boodles. The free-standing and larger pieces, at Waddington, show clearly how far Caro has in recent years moved back towards a more modelled and integrated form, though that inclination has long been evident. But the new bronzes at Knoedler are the more remarkable, for they mark his return to the technique of modelling and the incorporation of all manner of other material than sheet metal. And in the imagery itself, by explicit reference to ancient Indian temple reliefs upon which he left off all those years ago, comes close to the surface once more.

The excellent catalogue of the Waddington show apart, two useful monographs on these artists have lately been published by Thames & Hudson and both are to be recommended. *Anthony Caro* by Terry Fenton (172 illus: 128 pp: £12.95) takes 1960, when Caro made his first steel pieces, as its starting point; and *Richard Long* by Rudi Fuchs (244 illus: 240 pp: £20) is an invaluable and exhaustive visual account of Long's development as an artist over the last 20 years.

Anthony Caro's table piece Whistle and Flute, steel varnished (1985-86)

London International Piano Competition

The first London International Piano Competition, launched at a concert given by Radu Lupu in the Queen Elizabeth Hall, will be held at the South Bank in February 1988 — not 1987, as erroneously stated on this page on September 26.

So Long on Lonely Street/Palace, Watford

Michael Coveney

Lou Stein's first season as artistic director of the Watford Palace looks set to continue this agreeable Edwardian house's reputation for interesting, attractive work, in spite of this anaemic Southern domestic drama by new American writer Sandra Deer. Miss Deer, on this evidence, is blessed with more competence than soul.

Luckily, she is also blessed with a fine, relaxed production by Mr Stein, an excellent design by Voytek and a good cast led by Gayle Hunnicutt and Brian Protheroe as returning twins on a family estate. They have arrived for the funeral of Aunt Pearl who lies in her coffin guarded by her black half sister and the family's friend Annabel Lee.

The she-twin, Ruth, has tried to handle the past as a poet, aiming optimistically to be the next Sylvia Plath. Her brother, Raymond, is an actor in television soaps in New York whose parts are getting smaller, a sad fate for a TV pin-up. Also on hand is the twins' noisy cousin King, married to Clairice, who plans to extend his fried chicken and taxi cab empire by converting the estate into a shopping centre.

The mixture of Southern family ties and dynastic knots bound up in the future of a plot of land sounds suspiciously like that infamous Josh Logan transposition of *The Cherry Orchard* to the Deep South unkindly dubbed by Walter Kerr "Kentucky Fried Chekhov." The Gayev/Ranevskaya parallels come thick and fast, most crucially in the obvious joy Ruth and Raymond take in each other's company.

There is also the haunting figure of Big Jack, the founding father whose grip on the family fortunes is fully revealed when the will is finally, and not before time, read.

Old Anna, the play's most sympathetic character, is beautifully played by a young black actress new to me, Claire Benedict. She exudes dignity and grace and only her height and slimness would betray her youth. Miss Benedict eggs on the twins to reanimate their relationship, albeit unwittingly. It reflects mighty well on the charm and resourcefulness of Miss Hunnicutt and Mr Protheroe that their clumsily incestuous overtures ("We've been leading up to this for ever" is gruesomely typical) remain watchable.

Talking of which, Miss Hunnicutt wears that glorious cascading ginger hair of hers now up and now down, now settled in stylish compromise while its owner sports red shoes and a fabulous cerise suit: most original funereal garb. Mr Protheroe plays Elvis numbers on guitar and certainly justifies the role's dashed hope to be the next James Dean.

The noisy cousins, a tiresome couple, are played with engaging vigour by Lou Hirsch and Caroline Bliss, while Voytek's hanging lace interior and outdoor hint of scenic greenery cleverly convey the feel of the estate. But the overall impact is bland and derivative. The central discussion of what happens to the heritage plays like an educational example of how to write such scenes and, at the same time of course, how not to.

Alastair Muir

Brian Protheroe and Gayle Hunnicutt

Hermann Prey's Schubert/Wigmore Hall

David Murray

London heard far too little of Hermann Prey during the first twenty years of his career, but amends are being made. If the Royal Opera has barely tapped his operatic range (and set about even that very tardily), he can do what he likes in recitals — which is invariably what he does best; and luckily there is a great deal of it. Now that he makes London a regular port of call, he is treating us to generous portions of a repertoire that comprises most of the baritone *Lieder* repertoire (up to Strauss: Prey is no friend of modern music). Currently he is expounding Schubert, and tickets are like hen's teeth — the Wigmore is a most sympathetic auditorium, but frustratingly small.

On Friday he explored Schubert's Schiller settings: the "ballads" in particular, in strict chronological order, those very Teutonic long narratives and moralising vignettes which non-German singers prefer to ignore in favour of the songs. As treated by an artist of Prey's calibre, their loosely-strung rewards are sterling; he has a natural storyteller's gift, and the unabashed pleasure in performing that can keep the more mawkish or morbid stuff at a half-ironic distance. This time he also has as accompanist Leonard Hokanson, whose lively imagination, clever fingers and keen dramatic timing created splendid frames for the ballads.

Between them they made something even of the 14-year-old composer's "Leichenphantasie," an hysterically morbid piece; and Hokanson relished all the pictorial deep-diving of "Der Taucher." Those two protracted tales occupied the first half of the recital. Then came "Die Bürgschaft," a Schiller ballad which has edified thousands of schoolboys, and which Prey recounted grippingly while Hokanson conjured up the required impassable torrents, burning desert, sinister sunset, etc, in excellent style.

In all that, Prey's ripe diction and persuasive cunning were sovereign. Some passing notes of erratic pitch helped, if anything, to insure the tale-telling against sounding too studied. On Saturday we had Schubert's Goethe: more songs than ballads — a searching scene like "Prometheus" or "Ganymed" is a far cry from Schiller's action-filled epics—and Prey refined his vocal riches accordingly.

In a programme of magnificent music so honestly delivered, each listener might find different revelations. I thought Prey's defiantly vital "Prometheus," one of the few Schubert settings that Hugo Wolf dared (rightly) to improve upon, made the best possible case for Schubert; with "Ganymed"—Schubert's is sweetly innocent, Wolf's exquisitely knowing—he did almost as much. "An Schwager Kronos" was tremendous, "Geheimes" charmingly intimate.

Britten-Tippett/Festival Hall

Andrew Clements

The faces at the Britten-Tippett Festival are becoming familiar now, and there are not many of them. Though the Wigmore Hall bonanza a week ago was packed, the Festival Hall concerts have been scantily supported; at none of the three I've attended has the hall been as much as half full. On paper at least, Sunday's programme was the most attractive of the series so far; in Britten's *Sinfonia da Requiem* and *Our Hunting Fathers* and Tippett's Third Symphony it offered a trio of richly resonant scores representing for once both composers at their most stimulating.

This time, however, it was the performances from the BBC Symphony under John Pritchard that disappointed. All three are vivid, larger-than-life pieces, all with extra-musical connotations. The polite, civilised run-throughs that were offered in place of vital committed music-making just about kept the Britten on the rails, but failed to provide any semblance of shape to the Third Symphony until the arrival of the soprano in the finale.

Faye Robinson's contributions have been one of the glories of performances of *The Mask of Time*, and the challenge of singing the symphony was a natural and welcome follow-up. The blues sequence is always going to sit somewhat uneasily upon the tough, densely argued orchestral music which precedes it, for all the moments of retrospective explanation it provides. Tippett's attempt to slide into a blues idiom carries its own problems too; less, though, in Robinson's performance than in any of the previous three versions I've heard.

She takes the phrasing naturally, eases the music beyond the notes into unselfconscious expressive curves, and manages the moments of ecstasy with total lack of inhibition. Her voice was amplified, perhaps slightly too much; but her absolute involvement shamed the orchestra into marginally better form than it had previously exhibited. The tension on which the first movement depends had been all but absent.

The Britten works at least preserved their identities, more or less. The *Sinfonia* needs a good deal more incisiveness and venom to project itself with the angry brilliance it contains; *Our Hunting Fathers* simply needs faster tempi and instrumentalists interested in projecting their solo lines—John Harle's saxophone solos set an example his colleagues would have done well to follow. Jill Gomez was the soprano soloist, a replacement for the indisposed Antony Rolfe-Johnson, and sounding strained at times, especially in "Rats Away!"; but she managed the difficult outer poems, Auden's original contributions, with a great deal of skill.

Alastair Muir

Janice Cairns as Aida

Aida/Coliseum

Rodney Milnes

The ENO's revival of the exemplary Copley-Lazaridis staging of Verdi's opera, now seven years old and in the care of Michael Hunt, failed consistently to catch fire last Saturday. There was more than one reason. The introduction of Covent Garden-length intervals, a practice strongly to be discouraged, was no help at all—the performance over-ran the advertised time by half an hour—and the interesting thumps, bangs and squeaks that the audience had to listen to while waiting with growing impatience for each scene to start suggested that there was a technical rehearsal in progress rather than a first night.

The Dutch conductor Kees Bakels was making his house debut. He tended, if not to kill, then at least to inflict grievous bodily harm on the score with too much kindness. One would not want to discourage a serious musician—his worth proven by successful appearances with the WNO—from seeking to breathe fresh life into a score that can be taken routinely for granted, but his restless way with tempos, often unrelated and several of them within each dramatic paragraph (and some of them visibly throwing the singers), together with over-expressive ritardandos at phrase-endings, gave his reading a disjointed, stop-go feeling. This *Aida* failed to achieve a natural flow.

Until the fourth act, that is: the Judgement Scene was thrillingly done, and thrillingly sung, too, by Linda Finnie (Amneris), who let loose a stream of voluptuous, ideally free tone throughout the range, successfully filling in what had earlier on sounded like a four-note break in tone at the bottom of the stave. Wonderful! If Mr Bakels could match this level of intensity throughout, then here would be an *Aida* to catch.

Janice Cairns was singing the title role for the first time. Some—not I—might find her tone too steely and monochrome, but I love her soprano's strength, its total reliability and its clear projection, and I love the way she uses a soundly based technique to shape phrases with keen musico-dramatic insight. This was an impressive and satisfying debut, roundly acted—and it can *only* get better. She did not attempt the *dolcissimo* C in the Nile Aria (it ranged instead from *forte* to *fortissimo*) but perhaps she will when she is not singing to a house-full of critics. I am sure she has it in her voice.

If good intentions were all, then Eduardo Alvares's Radames would be world-class: the instincts are admirable, the beat in the tone under pressure and the bumpy phrases less so. But the essential heroic dimension is there. Patrick Wheatley got my vote by taking Amonasro's "Pensa che un popolo" on one breath; admittedly he paid for it by losing pitch on the G, but his priorities are right. His baritone sounded decidedly more colourful following his successful first encounter with Sachs last season.

The smaller roles were strongly cast: Jane Eaglen, the company's *Trovatore* Leonora, no less, sang the Priestess quite magnificently; John Connell (Ramfis) made every word of Edmund Tracey's fine translation tell through warm, round bass tone; in Alan Woodrow's hands the Messenger became a major role. Such are the strengths of ensemble opera.

There are the ingredients of a good *Aida* here; they didn't quite gel on the first night, but this revival could well be worth investigating later in the run.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/ Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

October 10-16

Opera and Ballet

PARIS

Don Carlos conducted by Georges Prêtre and produced in its original version by Marco Arturo Marelli who, by choosing a sober decor, allows full play to the opera's dreams. Paris Opéra (4266 5022).

The Bolshoi Ballet and the Bolshoi Philharmonic Orchestra present three different programmes: The Golden Age, Raymonda, Giselle, and Mozart and Salieri at the Palais des Congrès, Porte Maillot until Oct 27. (4758 1494).

Les Ballets Jazz de Montreal at the Theatre de Paris (43593939)

WEST GERMANY

Berlin, Deutsche Oper: Cosi fan tutte with Kathlyn Martin, Ute Walter, Carol Malone, Alejandro Ramirez and Andreas Schmidt. Rigoletto with Ingvar Wixell, Angela Denning, Ryszard Karczykowski. Lisbeth Balslev takes the title role in Wieland Wagner's production of Salome. On Frederick the Great's 200th anniversary, the libretto he wrote, Montezuma, will be performed to music by Carl Heinrich Graun, produced by Herbert Wernicke. Die Meistersinger von Nürnberg rounds off the week.

Hamburg, Staatsoper: La clemenza di Tito stars Judith Beckmann, Doris Soffel, Werner Hollweg and Stafford Dean.

Frankfurt, Opera: Benjamin Luxon takes the title role in Eugene Onegin, and Ellen Shade, Marianne Rorholm, Barbara Bonney and Roland Bracht sing in Der Rosenkavalier. The Masked Ball, sung in Italian, has Mara Zampieri, Julie Kaufmann, Karen Rambo and Otoniel Gonzaga. Janacek's The Makropulos Case has its last performance. In the repertory also is Die Verkaufte Braut.

Cologne, Opera: Eine Florentinische Tragödie/Gianni Schicci features Anny Schlemm, Janice Hall, Alberto Rinaldi and Martin Finke. Salome has Gwyneth Jones in the title role. Cendrillon, sung in French, is conducted by Sir John Pritchard.

Stuttgart, Würtembergisches Staatstheater: Otello with Vladimir Atlantow, Julia Varady and Gabriele Benackova-Cap. Also Jano Kulka conducting Cav and Pag in Mario del Monaco's production with Waltraut Meier, Julia Conwell, Raymond Wolansky and Wolfgang Probst in the cast. Also, Die Fledermaus and The Marriage of Figaro in the repertory.

LONDON

English National Opera, Coliseum: The new Mikado staged by Jonathan Miller, a 20s showbiz romp in black, grey and white, represents one of the company's more successful attempts to tackle a popular entertainment in a lively modern way. Eric Idle (as Ko-Ko), Felicity Palmer, and Richard Angas stand out in the large cast. Also in repertory: a revival of the John Cooley staging of Aida, a not very convincing attempt at ENO spectacle, with Janice Cairns, Eduardo Alvares, and Linda Finnie leading the cast; and Madam Butterfly, in Graham Vick's self-conscious over-production, with Rosamund Illing in the title role.

Sadler's Wells, Rosebery Avenue: The Central Ballet of China performs all week with a fascinating collection of ballets and some fine dancers.

ITALY

Florence: Teatro Metastasio (Prato): three ballets by American dancer and choregrapher, Twyla Tharp: The Glass Piece, with Mozart and Nine Sinatra Songs (Tue, Wed, Thurs). (2779236).

Bologna: Teatro Comunale: Puccini's Tosca with Silvano Carroli, Raina Kabai Vanska, and Nicola Martinucci (alternating with Gianfranco Cecchele), directed by Giancarlo Cobelli. Romano Gandolfi conducts, scenery and costumes are by Paolo Tommasi. (Fri) (22.29.99)

NETHERLANDS

Amsterdam, Muziektheatre. The National Ballet with Hans van Manen's Opening, the Collective Symphony by Van Dantzig, Van Manen and Van Schayk, and Van Schayk's Seventh Symphony (Tue). The Netherlands Opera presents Verdi's Falstaff directed by Liviu Ciulei, conducted by Hans Vonk with Timothy Noble in the title role, John Brëcheler, Ashley Putnam and Anne Howells (Wed). Premiere of the Netherlands Opera production of Eugene Onegin by Tchaikovsky, directed by Michael Geliot, conducted by Christian Badea, with Lenus Carlson, Hans-Peter Blochwitz, Annet Andriesen and Adriana Vanelli (Thur) (255455).

Eindhoven, Schouwburg. The New York Harlem Opera Ensemble with Carmen Jones conducted by William Barkhymer, Ruby Hinds in the title role (Thur) (111122).

Groningen, Schouwburg. Hoofdstad Operette with Millöcker's Der Bettelstudent directed by Alexander Pichler and conducted by Martin Mälzer (Mon, Wed) (125645)

The Ballet USA company on tour. Mon in Amsterdam, Carre (225225), Wed in Rotterdam, Zuidplein Theatre (815844), Thur in Groningen, Schouwburg (125645).

Scheveningen, Circus Theatre. Julie West and her ballet company with ABC and Spatial Freeway (Mon) (558800).

SPAIN

Barcelona: Ballet National de Marseille Roland Petit (Mon). Le Chat Botte and (Tue), Ma Pavlova. Gran Teatre del Liceu, Sant Paur 1 (3189277).

VIENNA

Staatsoper: Orpheus conducted by Schirmer with Jaska, Seyfried, Pongor (Fri). La Traviata conducted by Boncompagni with Szuecs, Sima, Slania, Hadley (Sat). Der Fliegende Holländer conducted by Schneider with Mekler, Gonda, Hölle, Koenig (Sun, Thur). Elektra conducted by Letiner with Ludwig, Martin, Reppel, Simonida, Bence, Gonda (Mon). L'Elisier d'Amore conducted by Weikert with McLaughlin, Sima, Hadley, Pola, von Kannen (Tue). Il Barbiere de Seviglia conducted by Wewikert with Gruberova, Slania, Gonzales, von Kannen, Furlanetto, Pola (Wed), (51444/2655).

Volksoper: Hänsel und Gretel conducted by Richter with Banfalvi, Eder, Rudiferia (Fri, Mon). Das Land des Lächelns conducted by Pollack with Graczoll, Dauscha (Sat, Tue). La Fille Mal Gardèe conducted by Artmueller with Seyfried, Tichy, Heidenreich, Rovny (Sun). Madame Pompadour conducted by Bibl with Ramm, Burger, Papouschek, (Wed). Schwanda der Dudelsackpfeifer conducted by Parik with Radek, Sorell, Slabbert (Thur). (51444/2657).

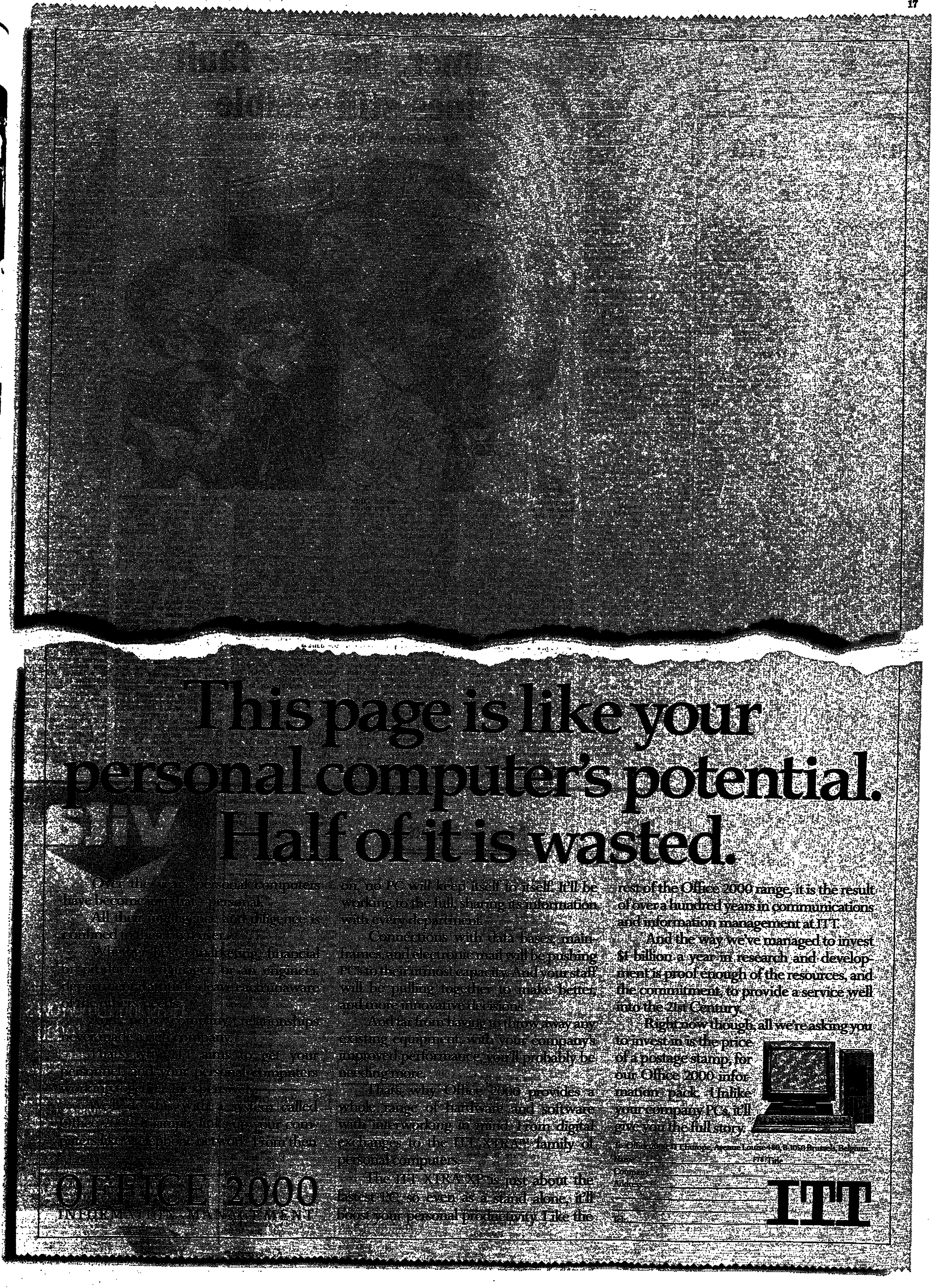
NEW YORK

Metropolitan Opera (Opera House): James Levine conducts Le Nozze de Figaro in Jean-Pierre Ponnelle's production with Elisabeth Söderström, Kathleen Battle and Thomas Hampson. John Dexter's production of Aida is conducted by Nello Santi with Martina Arroyo, Grace Bumbry, and Leo Nucci. Julius Rudel conducts Manon in Gian Carlo Menotti's production with Leona Mitchell, Ermanno Mauro and Brian Schexnayder; Otto Schenk's production of Die Walküre is conducted by James Levine with Hildegard Behrens, Jeannine Altmeyer and Simon Estes. Lincoln Center (362 6000)

Joffrey Ballet (City Center): 30th anniversary season opens Thursday with a gala premiere of Frederick Ashton's La Fille Mal Gardèe. The five-week season also includes a newly commissioned work from Mark Morris and the New York premiere of Mark Haim's The Gardens of Boboli. 55th E. of 7th Av (581 7907)

CHICAGO

Lyric Opera: Christof Perick conducts Pier Luigi Pizzi's production of Parsifal, a Lyric Opera premiere, with Tatiana Troyanos, Jon Vickers and Hans Sotin. The Magic Flute features Francisco Araiza as Tamino and Judith Begen as Pamina, conducted by Leonard Slatkin in August Everding's production. Michael Tilson Thomas conducts John Copley's production of La Bohéme with Katia Ricciarelli as Mimi and Luis Lima as Rodolpho. (332 2244).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Tuesday October 14 1986

Detente after Reykjavik

THE PARADOX of the Reykjavik summit is that it was both a bigger success and a bigger failure than anyone could have predicted before last weekend. In the immediate hangover of dashed hopes, failure seems to outweigh success. But at least the key disagreement—over the nature and course of President Ronald Reagan's Star Wars missile defence programme—has been thrown into sharper relief. Whether it can ever be bridged by the current White House and Kremlin incumbents must now be in doubt. But if it were, the gains that would follow in reducing offensive nuclear weapons are now clearer than ever.

One of the many Reykjavik surprises was that Mr Reagan was ready, at a meeting billed by the US only as preparatory to a full-blown summit, to get stuck into 11 hours of detailed negotiations. But having decided to do so, he and Mr Mikhail Gorbachev made rapid progress. They apparently agreed on a mutual 50 per cent reduction in long-rang strategic weapons. They struck a tentative deal that would have left Europe free of medium-range missiles and a stock of only 100 warheads each in Soviet Asia and Alaska. They even, it seems, narrowed their wide differences on the issue of nuclear weapons testing.

Roadblock

The inevitable roadblock was Star Wars—Soviet insistence that the US confine its missile defence research to laboratory work within a re-written and more restrictive Anti-Ballistic Missile (ABM) treaty and American persistence that their research continue, within a more permissive interpretation of the ABM treaty, to development and testing.

Perhaps the biggest surprise of all was the lengths to which both leaders went in trying to win the Star Wars tussle on their terms. Mr Reagan made the extraordinary concession that, if the US were alowed to withdraw from the ABM treaty at the end of 10 years, and so be free then to deploy a Star Wars defence, then the country would work for the *total* elimination of all ballistic missiles within those 10 years.

This proposal, had it been snapped up by Mr Gorbachev, would probably have horrified the US military and not a few of America's allies who would mistrust Soviet conventional military strength in a non-nuclear world. That Mr Reagan made such an offer is a measure of his determination to preserve the Star Wars programme.

For his part, Mr Gorbachev now seems committed with equal emotion to the shackling and fettering of US Star Wars research. Quite why is still something of a mystery, when the Soviet Union has been conducting some research of its own in space-based missile defence. Perhaps part of the answer may be that that very research has convinced the Soviets that the US leads in electronics and high-speed computing place them at a disadvantage in this fields. Possibly, Mr Gorbachev shares with many outside the Soviet Union the view that Star War dangerously destabilises strategic nuclear thinking and practice.

Draft accord

At all events, there is now a real risk that Mr Gorbachev will up the ante on Star Wars and reverse his previous position that, in the field of medium range missiles at least, a deal could be struck without reference to Star Wars.

Indeed, he may have already done this at Reykjavik; which is why the draft accord on medium range missiles was never signed. If this was so, it is possible to argue that Mr Reagan walked into something of a trap in Iceland. Clearly, the Soviet leader fulfilled last weekend much of what he was striving for all year—a summit that focused on arms control to the virtual exclusion of all else and that would appear, in the event of failure, to founder on US, rather than Soviet, intransigence on Star Wars, the one issue where Mr Reagan had stirred most controversy.

The way forward from Reykjavik is hard to see—the more so because the US is putting the best face on the meeting and the Soviety Union the worst. It is surely right, as America's European allies have urged, that all the negotiating gains from Reykjavik should be transferred to Geneva for the superpower negotiators to refine. Whether they can do more than refine, in the absence of a further meeting of their leaders' minds, is highly debatable.

Those caught, like the Europeans, in the middle of the superpower wrangling, are not totally powerless to influence the eventual outcome. They can reiterate to Washington that if, as Mr George Shultz said, Star Wars has utility as the biggest bargaining chip of all, then one day it must be put on the table.

Equally, they can make clear to Moscow that if it wants detente with Western Europe, there must be no backsliding such as on the deal ridding Europe of medium-range weapons. The failure of this summit should not be allowed to scar East-West relations.

BARRING THE sort of last-minute, concession-squeezing hitch for which Israeli politics is notorious, Mr Yitzhak Shamir, the 70-year-old Likud leader will be named today as Israel's ninth prime minister.

Mr Shamir, who served previously as a caretaker prime minister for 13 months, to September 1984, returns to office not through elections, but by courtesy of a unique power-sharing arrangement with Mr Shimon Peres, the Labour Alignment chief. Much against expectations, Mr Peres resigned as prime minister last Friday at the end of his allotted 25-month term, clearing the way for his rival to take over.

On the face of it, the occasion is hardly a momentous one. The two men will simply swap jobs — Mr Peres taking over the vacated Foreign Ministry from Mr Shamir — and the coalition National Unity Government will continue as before for up to a further two years.

Few Cabinet changes are expected at this half-way stage. And the policy guidelines agreed in advance are so detailed and all-embracing as to leave apparently little room for change.

Business as usual is the message Shamir and his aides have been putting across in the days immediately prior to the rotation. Anxious to dispel its old public image as the party of demagoguery and reckless spending, Likud is trying hard to reassure Israelis that it will not jeopardise the substantial achievements of the past two years.

These accomplishments have been notable. The ravages of hyper-inflation appear to have been beaten; a start has been made to restoring the public accounts to health; the army has been extracted from Lebanon, shaken but relatively unscathed; and the country's international standing has improved substantially.

Above all, as Mr Peres was not slow to point out in his valedictory address to the Knesset last week, he has restored stability to Israel, coupled with a renewed faith in democracy and a badly needed dose of self respect. The Labour leader took power in 1984 at a time of unprecedented strain.

Inflation, running at one stage at an annual level of 1,000 per cent, together with a controversial war in Lebanon, had shaken the country's democratic foundations to the core. The cry had gone up for a strong authoritarian leader to sort out the mess, someone like Mr "Arik" Sharon, the former war hero and Defence Minister.

In the event, it is the more moderate Mr Peres who can claim to have done just that: cemented the triumph of democracy by his voluntary surrender of power.

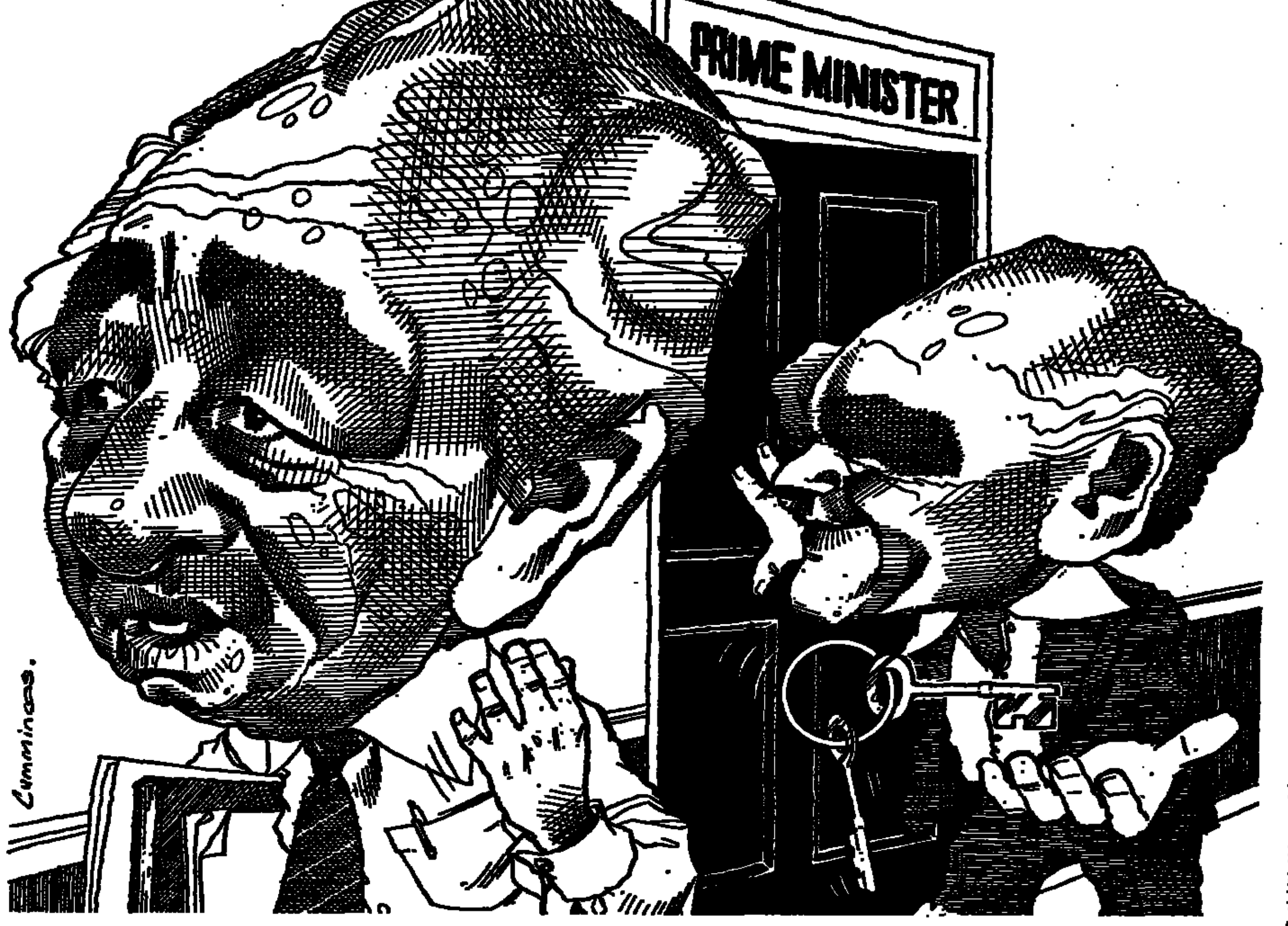
Israel today is a much calmer, less fractious place than it was in 1984. The fault lines are still as visible: between the Ashkenazi and Sephardic Jews, the main ethnic blocs; between the impatient secular and the militant religious; and between the 3.5m Jews and the Arab minority in their midst. But the grand coalition formed after the deadlocked 1984 elections appears to have succeeded in subsuming many of its internal differences and restoring a degree of tolerance absent during the Begin years in the late 1970s. Opinion polls have consistently given the coalition an exceptionally high rating.

All previous governments since the founding of the state had also been coalitions, because the extreme form of proportional representation adopted by Israel's founding fathers has made it nearly impossible for either of the two major parties to gain an absolute majority.

Israel at the handover

Calmer, but the fault lines still visible

By Andrew Whitley in Jerusalem



But this was the first time that the Labour Alignment, still accustomed to thinking of itself as the traditional party of government, had been forced into bed with Likud, its arch opponent on the right. As Likud is the political home of the underdog Sephardi Jews, an uneasy ethnic alliance was also forged.

Few Israelis believed that the National Unity Government, which included a scattering of minor parties on the right and left, would survive more than a few months.

Labour strategists certainly did not think this alliance of opposites would hold up; and it was with bad grace that the party slowly came to terms with the evident determination of Mr Peres to go through with the handover.

The Labour leader passes on an economy which may have been stabilised, but is now wallowing in the shallows after the departure of the inflationary tide. Growth has been insipid throughout the decade, barely matching the population increase—and certainly inadequate for a state whose raison d'etre is to attract Jews from the Diaspora. With the exception of the Soviet Union, the large remaining Jewish communities outside Israel are all living in societies which can offer a better standard of living than Israel.

How to restore fast economic growth without printing money will pose an immediate challenge to Mr Shamir. Unemployment has reached a relatively high plateau of 7.5 per cent. Government economists and industry leaders believe that a consumer-led rise in imports could provoke a balance of payments crisis either next year or in early 1988.

The traditional starter motor for an economic upturn, the construction industry, is in deep difficulties, while the high-tech and defence-related industries are suffering from the effects of over-rapid expansion combined with swingeing cuts in defence expenditure.

The cuts have followed the withdrawal of nearly all Israel's troops from Lebanon last year, a move which marked the beginning of a concerted drive by Mr Peres to improve Israel's standing overseas.

He has built new bridges to parts of Black Africa, engaged Morocco is public dialogue and warmed up the "cold peace" with Egypt. Diplomatic relations have been established with Spain 400 years after the expulsion of the Jews; and a door has been opened to the Soviet Union and its vast pool of potential Jewish immigrants.

Diplomatic relations with Western Europe as a whole are considerably warmer today than they were when Mr Peres took office and the key strategic relationship with the US is in good overall shape despite disputes over the controversial, American-financed Lavi fighter project and last year's revelation that a secret Israeli spy network had been operating inside the US.

But a solution to the problem of the occupied West Bank and Gaza strip territories, with their 1.4m disaffected Palestinians, remains as distant as ever. The Peres-led coalition can claim no real breakthrough in this area.

The question of Jewish settlements in the occupied territories, the flashpoints of the past, has subsided lately — partly because of restrictions on the construction of new settlements, partly due to the shortage of government finance and partly to Mr Peres's efforts to play down the issue.

On the other hand, with little fanfare, the number of Jewish settlers—many of them young American zealots—in the West Bank has swelled by 50 per cent, to 60,000, since the National Unity government came into being.

Anything other than a token withdrawal from the West Bank would almost certainly prove very unpopular with the electorate.

Given the fuss made when a few symbolic Israeli settlements in the Sinai were demolished when the peninsula was handed back to Egypt, it is hard to imagine a democratic government in Israel pulling down settlements in the Biblical lands of Judea and Samaria—or even transferring them to Jordanian sovereignty.

What was long considered to be temporary has gradually become permanent, and attitudes have hardened on both sides. A rare recent opinion poll in the occupied territories was bleak in its findings, indicating that the moderate-minded middle ground had disappeared.

The new generation of Palestinians which has grown up only knowing the heavy hand of Israeli military rule may currently be docile. But the poll showed that large numbers favour the use of terror against Israel and its allies, and reject outright the proposed condominium between the West Bank and Jordan.

For the moment, the Palestinians' most effective weapon is their own fertility. On present trends, by the end of the century there will be an Arab majority within the boundary lines currently controlled by Israeli arms.

Israelis, on the other hand, remain pre-occupied with their difficulties in attracting Jewish immigrants.

Unable to adjust to what remains a rough and ready society, many potential new immigrants return disillusioned to their countries of origin. For those who stay, an abiding hurdle is the country's critical attitude towards private wealth. Fame and honour may be yours in Israel, a highly cultured and educated society which prizes learning and the arts. But you are not allowed to benefit financially from your success.

The socialist ideals on which the state was founded may be slowly breaking down. But a strong egalitarian streak persists within the new, less starry-eyed generation of native-born Israelis. Most successful businessmen are regarded as unsavoury, anti-social characters who must have made their money by breaking laws

No quick salvo of initiatives on either the West Bank or on economic policy seems likely from the blunt-spoken Likud veteran. Unlike his predecessor, Mr Shamir puts a low profile on public relations.

But changes in emphasis, and especially in style, there will certainly be.

Mr Shamir's line on the occupied territories is likely to prove uncompromising. The best he is likely to offer King Hussein is tacit recognition of Jordan's interest in the West Bank and Gaza. He is adamant that there will be no withdrawal.

Likud likes to portray itself as the party of hard-headed realism arguing that King Hussein prefers this to Labour's "romantic illusions." Whatever the truth to this argument, it is abundantly clear that if the King was reluctant to enter into public negotiations with the Peres-led half of the coalition, he is even less likely to do so with Mr Shamir.

War with Syria remains a constant risk. Mr Shamir's tough approach to security issues raises the risk of a pre-emptive Israeli strike if the danger from Damascus appears imminent.

Few restraints operated on the Peres government when it came to dealing with terrorism, at home or abroad. But, if anything Mr Shamir, for years a senior figure in the Mossad, the Israeli foreign intelligence service, will take an even tougher line. There will be no question of even indirect dealings with the PLO, as some in the Labour party would be prepared to consider.

What Mr Shamir cannot rely upon is time and internal harmony within his government, harried as he will be by both his own powerful lieutenants and by a Labour party anxious to capitalise as soon as possible on its present popularity.

Reluctantly handing over power, Labour has served notice that it intends to bring down the coalition as soon as it can find grounds convincing enough for the electorate. On paper, Mr Shamir now has 25 months before him to make his mark. But if his coalition partners have their way, elections some time next year look a strong possibility.

A Scottish-style regional policy

ONE OF the surprises of recent years is the extent to which an aggressively non-interventionist British Government has come to appreciate the virtues of the Scottish and Welsh Development Agencies. "Creative and dynamic" were the words Mr Malcolm Rifkind, the Scottish Secretary, used to describe the Scottish agency yesterday in the preface to an official review of its work. In a recent Centre for Policy Studies pamphlet on industrial policy, Mr Leon Brittan, the former Trade and Industry Secretary, was equally enthusiastic, declaring that "the SDA today is regarded as acceptable and indeed indispensable across all shades of the political spectrum in Scotland."

What explains the agencies' popularity among those who normally back market solutions to economic problems? They do, after all, represent a sizeable intrusion by the public sector; the Scottish agency has about 700 staff and a budget of £130m. And they have had their spectacular failures: in Scotland, for example, a seven figure sum had to be written off with Gomba Stonefield, a company that intended to build four-wheel vehicles. Rates of return are also low: negative for the SDA's small business investments since 1980 and only 5.4 per cent for all head office investments over the same period.

Positive impact

Part of the popularity doubtless reflects a conviction that, but for the agencies' work, Scotland and Wales would be in worse shape. The official review claims that the SDA "has had a substantial and positive impact on Scotland's economy and environment," although it admits that "this impact is not easy to measure in quantitative terms." Indeed, it concedes that in the 10 years since the agency was set up, Scotland's relative position within the UK economy has remained "broadly unchanged." The implication is that but for North Sea oil Scotland would have gone rapidly backwards; in other words the SDA's achievement has been pretty modest.

The agencies' acceptability doubtless also reflects the considerable change in their moduc operandi since their inception at the hands of a Labour government in the mid1970s. They argue that they no longer throw money at jobs, indeed that they no longer even try to create jobs *per se* but rather strive in a general sense to promote economic prosperity. They are catalysts and pump primers rather than major investors. As Mr Robin Duthie, the Scottish agency's chairman, put it earlier this year: "The SDA, like God, helps those who help themselves."

Broad view

If development agencies are good for Wales and Scotland, would they not also be good for depressed regions in England? Yes, says Mr Brittan, who argues that English regional policy is less effective than it might be because of the "proliferation of public bodies and government departments, each with different powers and functions." The official review of the SDA backs up this judgment by pointing out that the agency would not have been so successful but for its "integration of functions" and ability to take a broad view of Scottish problems.

Men and Matters

A struggle for the rich

If it is any consolation the US super-rich have apparently been having a harder time than the average wage-earner in maintaining their life-style during the inflation of the past decade.

The price of caviar, for heaven's sake, has risen by 344 per cent; Cuban cigars by 196 per cent; and a pair of Lobb shoes by 363 per cent.

Forbes magazine, publishing its annual list of the 400 richest people in the US, reckons that if you were a millionaire in 1976, you would need to be worth close to $2.5m now to enjoy the same sort of life.

A cost of living index for the super-rich, it estimates, would have risen 143 per cent compared with the 82 per cent rise in costs for the general urban household.

The price of silverware has more than doubled; two season tickets for the opera are up by 238 per cent. A Rolls-Royce costs $103,500 compared to $38,000 in 1976; a Russian sable is three times more expensive at $120,000; and the price of a motor yacht has more than doubled to $517,300.

A telephone call to London is about the only item that is cheaper. Though the price of a Learjet ($3.1m), like that of a couture dress or a facelift, has lagged behind in the inflationary spiral.

Lawyers' fees have merely kept pace with the cost of living—but the unfortunate rich who are being driven to the psychiatrist's couch now find themselves paying three times as much as they did 10 years ago.

Power play

The most enterprising part of the British nuclear industry's £250,000 investment in a "video wall" at Waterloo railway station may be the idea of offering people the addresses and telephone numbers of the industry's most vocal critics.

The four-minute core message in favour of nuclear energy is so bland that it caused no perceptible slackening in the pace of the hurrying commuters on the station concourse at 9.45 am yesterday.

The video wall is the brainchild of the nuclear energy information group, which has been richly endowed by the industry to win nuclear energy a better public image.

NEIG began life by quickly changing its name from the power information group — which had unfortunately become known to one and all as the Pig.

"Where there is ignorance there is bound to be fear" Alastair Goodland, minister responsible for nuclear energy, told assembled journalists, who greatly outnumbered the public yesterday

Family affairs

The breakaway Hambros, who left the family bank after it was restructured last May, have begun to make their mark.

A team from J. O. Hambro & Co, the small investment banking firm formed by Rupert and Jamie Hambro, is one of the dealmakers in the acquisition of Vivian Gray, the small London stockbroking firm which specialises in private clients, by the Bank in Liechtenstein.

The Hambro firm acted for Bank in Liechtenstein — which is 95 per cent owned by the Prince of Liechtenstein Foundation, and was originally started 400 years ago to manage the affairs of the Alpine principality's ruling family.

Rupert Hambro knows the bank's management well. The Liechtenstein heir apparent, Crown Prince Hans Adam, used to work for Hambros Bank.

After starting life in cramped conditions in Threadneedle Street last June, J. O. Hambro and Co has now settled in gracious-looking quarters in Queen Anne's Gate, overlooking St James Park, and expects to have a staff of 30 by next month.

Taste for music

Truly alcohol-inspired, you might say of Suntory's new $50m concert hall, its latest contribution to Tokyo's cultural life, which was opened yesterday.

It will be the first concert hall in Japan to serve alcohol, for a start, which should add a bit of fizz to the country's staid, soft-drinking concert-going habits.

But few other opportunities have been missed to mix a little product promotion into an evening's culture consumption.

The lobby gift shop is full of knick-knacks emblazoned with the Suntory logo; and even the permanent fixtures push the product. The design of the glass chandeliers, for example, is based on the chemical structure of alcohol.

Just in case any of the invited audience for yesterday's opening had been diverted by Beethoven's Choral Symphony, Suntory presented each guest with a gift of its brand of whisky — in a tasteful violin-shaped bottle, of course.

Business cycle

Guests at a banquet in Shanghai tomorrow night will be getting an unusual gift from Sedgwick, the Lloyd's insurance broker. David Brewer, the company's Far East development director, flew out from London late last week bearing reflective bicycle clips for the 500 British and Chinese businessmen expected to attend.

The banquet will follow a business seminar organised by the Sino-British Trade Council and the China Council for the Promotion of International Trade, to mark the Queen's visit to China.

Packed in a small plastic bag, each pair of cycle clips bears the legend: "Stay on with Sedgwick."

The company, which has an office in Beijing, said it thought the clips were an appropriate goodwill gesture to a country "where transport tends to be on two wheels rather than on four."

Takeaway order

The British Independent Broadcasting Authority receives some interesting telephone calls — but few to match the style of a woman who rang one evening last week.

She wished, she said, to arrange a blind date. Her master was visiting London from a certain Middle East state.

Could Cilla Black please arrange a nice lady for him? He was not interested in going on tv, and would like to see the lady before he accepted her.

"Explained we couldn't help," reported the duty officer laconically.

Observer

Letters to the Editor

Education: underfinanced or over spending?

From the Alliance spokesman on Education, Oxfordshire County Council

Sir,—Your leading article on education (October 9) says that giving curriculum and financial control to school governing bodies with more parents on them will not be of much practical benefit to most children alive today. In Oxfordshire we already leave the curriculum to governing bodies and have already increased the number of parents on them. And we are experimenting with devolving financial control as well. But our basic problem is of an underfinanced service while central government criticises us for "overspending."

A more serious issue arises from Mr Baker's proposal (October 8) to found 20 "City Technology Colleges." Mr Baker is concerned by the failure of some inner city schools to motivate pupils to study technology. But such unmotivated children will not be admitted to the new colleges as these will be selective. They will need staff (and there is a general shortage of maths and science teachers). And there is already a surplus of school places in most inner city areas, so further school closures will result from the foundation of these colleges.

It seems likely that these colleges will be funded more generously by central government than local authorities are expected to spend. It will not be surprising, therefore, if they are more successful than LEA schools.

Far better would be to allow the technical and vocational educational initiative to spread into all schools (as is indeed already proposed). We have a pilot scheme just started in Oxford which we hope to extend more widely. But that extension will cost money.

If central government wants better schools, why not give LEAs the money to get on with the job? Instead the Government proposes to cut yet again the rate support grant to Oxfordshire.

(Councillor) Dermot Roaf.
County Hall, Oxford.

From Councillor E. Singer

Sir,—As is so often the case your editorial "Key to change in schools" (October 9) hits a nail firmly on the head when you state that "the surface of the educational problem can barely be scratched by setting up 20 semi-independent specialised schools." In Windsor, we have a boys' comprehensive school which consistently achieves outstanding academic results. Last year, for example, 77 per cent of those taking the examination passed "O" levels at Grades A, B or C; 90 per cent passed their "A" levels (56 per cent in three or more subjects) and 98 per cent passed CSE.

Yet this school has to make do with antiquated buildings and inadequate basic equipment. Two examples, out of seven badly needed facilities, must suffice. This year 20 boys who wish to follow the new GCSE course which trains for engineering, robotics, problem solving, etc, cannot do so because of lack of accommodation. And this is in Berkshire, the heartland of the sunrise industries. The second example is the computer laboratory. This is so small that only half a class can use it at any one time. Repeated pleas have been made by the headmaster and governors to the Conservative-dominated county council. These have been rejected because of "lack of money." Mr Baker would be better to address the pressing problems of existing schools than to spend time on "gimmicks."

E. Singer
(Alliance Councillor, Berkshire County Council).
1 Claremont Road, Windsor, Berks.

Risks and nuclear power

From the Head, Environmental Impact Assessments, UK Atomic Energy Authority

Sir,—I am grateful to Mrs Barrett (September 24) for describing me as Head of the UK Atomic Energy Authority. Unfortunately that is not the only mistake she makes.

The incident at Dungeness that she refers to occurred last March, not last May. The quantity of mildly radioactive gas released was 50 kgs, not 100 tonnes, and the effect of the discharge, from the point of view of additional radioactivity in the environment, was trivial — about the same as the effect of a few tons of salt on the salinity of the Straits of Dover, which already contain about 1bn tons of salt.

The "carcinogenic fumes" from the UK nuclear industry that Mrs Barrett appears to be concerned about may, on the basis of the most pessimistic assumptions, cause a single additional cancer about once every hundred years. These fumes certainly cause less harm than those from coal-fired stations which, incidentally, discharge more radioactivity into the atmosphere than do nuclear power stations. The average dose from airborne discharges from all nuclear installations in Britain is about one fifth of a microsievert a year. This is about the same as the increased dose from cosmic radiation that would result from moving from a ground floor to a second floor flat.

Clusters of rare diseases such as leukaemia are not unusual. Leukaemia clusters were found well before the advent of nuclear power and many have been found in places remote from nuclear sites. There is some evidence that clustering may occur as a result of infectious agents or other factors not associated with radiation. The study to which Mrs Barrett refers found three leukaemia clusters. The Dounreay cluster was blamed on the nuclear plant there and the other two were dismissed, with no more justification, as random statistical fluctuations.

Mrs Barrett does not have a monopoly of concern about future generations. As developing countries strive to improve their standards of living and cope with the rapid growth of their populations during the coming decades there will be enormous pressures on the earth's limited energy supplies. At the same time, oil and gas, which now provide over half the world's energy, will be becoming increasingly scarce and expensive.

It is those who advocate the abandonment of nuclear power, one of the few established sources of energy that can make a significant contribution to this world energy problem, who are putting the future of everybody's children at risk.

Peter Saunders.
Harwell, Oxon

Mexico's debt dilemma

From the Mexican Ambassador

Sir,—Your editorial comment on Mexico's debt dilemma (October 9) comes very much to the point. Indeed, the next step in debt management must be to find a suitable way to delink debt rescheduling from new financing, while attending to both needs.

Certainly, future debt renegotiations should include effective relief on interest payments. The service transfers of debtor countries need to be isolated from interest rate fluctuations—particularly when, as you rightly point out, their real levels are so high. The specific formula you suggest is one among several that have been discussed lately. At this particular moment it seems more important to establish the principle — relief on interest payments should be provided — than to commit oneself to some particular procedure. This will be the result of negotiations and will be influenced by several factors—domestic banking regulations among them.

The debtor developing countries should regain access to external savings to complement the resources available for financing the development process and not just for keeping debt service payments. In this respect, it seems imperative to restore an adequate balance among the various sources of funds. The excessive reliance in just one of them — bank credits — is partially responsible for the present quandary. Official loans, credit from multilateral institutions and direct foreign investment, should achieve an appropriate share in the mix of external resources for development.

A brief additional point: Mexico is struggling to restore acceptable rates of economic growth in the next two years, after the strenuous adjustment effort since late 1982. The new financing will contribute to this end and no measures will be spared to ensure its more adequate use. The fears about feeding capital flight or misallocating resources are ill-founded. Through growth — sustained growth—the Mexican economy will find the real way out of the debt dilemma.

Jorge Eduardo Navarrete.
8, Halkin St, SW1.

Late payment of debts

From the Chairman, Smaller Firms' Council, Confederation of British Industry

Sir,—Mr F. V. Mills (October 6) is right to point to the problem of late payment of trade debts as a very real hindrance to small firms' expansion.

Late payment of debts has indeed been the subject of much discussion both within the CBI and between the CBI and Whitehall. The view that has emerged from the CBI's membership is that, as Mr Mills suggests, this is a matter which will not be solved by changes in legislation (although there is one small change which could help firms seeking restitution).

Introducing a so-called "automatic" right to interest on debts paid late, for example, might turn out to be a two-edged weapon used more against smaller firms than by them. The effectiveness of any legal right depends on the willingness of people to go to the courts to pursue it.

It has become clear from the CBI's work, however, that there is great confusion about what the law currently says, and many suppliers are not taking the steps available to them to protect themselves. Changing behaviour through education is likely to be the most effective course of action, therefore, and the CBI is tackling the problem.

Jean Parker.
103 New Oxford Street WC1

European Commission rift

From Mr J. Flynn

Sir,—You afford due prominence (October 7) to the increasingly evident rift within the European Commission over the application of the EEC treaty's state aid rules. As you rightly emphasise, state aid is the one area in which the treaty gives the Commission "genuine executive authority." The significance of the rift becomes clearer if that authority is examined more closely.

The treaty obliges member states to notify the Commission, before implementation, of plans to grant new aids or alter existing schemes. The Commission must then assess whether the plan is "compatible with the Common Market" and, if not, prohibit it. It is settled law that aid granted without prior notification is illegal, irrespective of whether it might have been considered compatible if duly notified. In such cases however, the Commission's almost invariable (but questionable) practice has been to overlook the illegal implementation and assess the aid's compatibility as if it had been notified.

Recently its practice has been improved: it has begun to order the recovery of incompatible illegal aid from the recipients. Not surprisingly, there have been squeals from the national capitals, unused to the Commission doing what the law requires of it.

What is surprising is the reaction of the Commission president. He is effectively overriding, on political grounds, the views of the competition experts under Mr Sutherland on whether such schemes as the Iveco aids are in the best interests of the Economic Community. This is wrong on two counts: it causes the Commission to loosen its belatedly tightened grip on national subsidy programmes; and it is illegal for the Commission to take no action against illegally introduced and objectively incompatible schemes.

It is one thing to change the policy on what may be considered compatible; it is quite another to overlook flagrant breaches of the treaty. Aid recipients' competitors have limited chances of attacking such malpractice in the courts. There is no substitute for timely, impartial and consistent intervention by the Commission.

James Flynn.
71 rue Principale, Sandweiler, Luxembourg.

Freedom of information

From the Chairman, Society of Civil and Public Servants, Trade and Industry Group, Ashdown House Branch

Sir,—How right Peter Riddell was in his comments on the lobby system (September 29) to say that "the culture of Whitehall and the Civil Service in Britain is still dominated by the principle of the need to know, rather than of the right to know." A neater statement of the situation would be difficult to find.

Despite the widespread support for greater freedom of information within the civil service and from outside, the prevailing guidance to staff in this department still requires that as a general rule, all contact with the media should be either through or only with the consent of information officials. This effectively seeks to ensure that the potential risks of disclosure eg misinterpretation or embarrassment are minimised and that the primary responsibility of Ministers for the exposition of Government policies and decisions is reinforced. Such attitudes are not designed to encourage staff from asserting what the public have a right to know.

At a recent interview a member of this branch drew attention to the more open style of briefing of political reporters practised in other countries such as the US. He also suggested that there might be a case for similar briefings in this country, perhaps even on departmental lines. Not surprisingly, he did not get the job!

R. W. Earwicker.
123 Victoria Street, SW1.

Unregistered design right

From the President, Trade Marks, Patents and Designs Federation

Sir,—The Government's proposals for reform of intellectual property law are misunderstood by Mr William Latey (October 2). Those proposals will make a substantial contribution to the encouragement of innovation in this country.

The unregistered design right is an imaginative contribution aimed at striking a fair balance between protecting new industrial designs, including spare parts, without stifling competition.

It is inconceivable that the new law will have the "devastating" effect on aftermarket suppliers envisaged by Mr Latey. In fact, the protection to be given to spare parts will be substantially less than that existing in this country before it was so savagely reduced by the recent House of Lords decision in the British Leyland v Armstrong exhaust system case.

It is clear and well understood that the new law must not be allowed to inhibit unfairly the activities of firms which wish to design spare parts to fit goods designed by others. Its objective is to prevent, for a limited time, the slavish copying of articles which have been the subject of substantial design work or research and development investment.

The definition of what is unfair copying is crucial to the success of the new law and the views expressed by Mr Latey make no constructive contribution to resolving this difficult issue.

The White Paper does not propose criminal sanctions for infringement of the new right. Such sanctions would be entirely inappropriate because the new right is akin to patents and registered designs. There is reference in the White Paper to criminal sanctions for infringement of copyright, and this is necessary to combat piracy of works protected by copyright. But the White Paper clearly states that the unregistered design right will be entirely outside copyright law.

P. Orton,
9, Henrietta Place, W1.

Equal pensions objectives

From Mr M. Oldfield.

Sir, — Mr Duffield's letter (October 6) about equal pensions for men and women are just too simplistic for the EEC bureaucracy: its ambition is to insist that equal contributions as well as equal benefits are enshrined in the rules of all pension schemes.

Maurice H. Oldfield,
(Group Pensions Executive), Allied-Lyons, Denmark Street, Bristol.

Exchange rates and suicidally high pay rises

From the Director, British Management Data Foundation

Sir,—Earlier this year (January 9) Samuel Brittan said that "a reasonably firm exchange rate is the only effective brake on the tendency of business to concede suicidally high pay increases." On October 2 he quotes Mr Andrew Baine, "if industry and the unions know the exchange rate will take the strain, how are they expected to bring down the level of pay settlements."

It is rather shocking for eminent economists to be so out of touch with the factors that affect industry's pay settlements.

It is sheer nonsense to state, for example, "as a result of the recent plunge in sterling market forces have allowed employers to settle for the well-established hopelessly inflationary going rate," because pay negotiations tend to be long and convoluted and not to be affected by transient considerations.

In any case, the dominant factors on pay awards are a need to hold one's staff, as well as the perceived inflation rates. There is also often unfortunately the British "felt fair" syndrome which our overseas competitors do not seem to enjoy. The level of interest rates and exchange rates have little if any direct impact on pay rounds.

It is therefore astonishing that the Treasury has had a deliberate policy on attempting to "squeeze the profits of UK industry" in the expectation of holding down pay awards.

Such a policy has one effect only—and that is to drive much of our manufacturing off-shore and with it employment, and also to drive into disaster those smaller companies operating on the margin who cannot re-establish their manufacturing base elsewhere. It is a negative policy and completely ignores the need of manufacturers to have healthy profits to enable adequate investment in trading and R & D to keep on equal terms with our competitors.

Anthony Cowgill,
Selwyn House, Cleveland Row SW1.

FOREIGN AFFAIRS: THE SUMMIT

A crisis—not a disaster

By Ian Davidson

WELL, the Optimists and the Ophthalmologists were wrong and the Old Apprehensives were right: Mr Mikhail Gorbachev did raise the ante at the Reykjavik mini-summit, and he did change the rules to Sudden Death.

Not merely is it now unlikely that there will be a summit proper in Washington, it is also rather doubtful if there will be any nuclear arms control agreement so long as President Reagan remains in the White House.

This does not necessarily mean that superpower relations will deteriorate in any dramatic way. Naturally, Mr Gorbachev will point the finger at Mr Reagan as the obstacle to arms control. But in other respects he may well go on wooing the West, because an improvement in East-West relations is still just as much in the Soviet interest as it was before.

It is unlikely that there will be any nuclear arms control during the rest of Mr Reagan's presidency, because the two leaders have decided to make the future status of Reagan's "Star Wars" Strategic Defence Initiative a point of principle and a point of honour.

A 10-year delay in the deployment of space-based anti-missile defences, would not in fact be any delay at all, because it is impossible for any plausible defensive system to be deployed in so short a time. A ban on tests and experiments outside the laboratory would also not be a serious inhibition, since there is so much basic research work to be done before tests are essential. It should have been perfectly possible for Reagan and Gorbachev to have reached a Janus-like agreement, with Reagan claiming that Star Wars was still alive and well, and Gorbachev claiming that it would not disturb the strategic balance for a decade.

But evidently President Reagan was unwilling to accept any restrictions which would have exposed him to criticism from the hard right. For while a ban on tests outside the laboratory would not have any fatal impact on the programme, it might well undermine the public relations campaign to keep alive, and to fund, his particular dream of a Star Wars astrodome which would one day make nuclear weapons "impotent and obsolete."

President Reagan's problem now is to persuade the American people, and America's allies, that he made the right choice. In the case of the European members of Nato, at least, it will not be easy to explain why the US should throw away deep cuts in nuclear weapons which the two leaders claim they had virtually agreed, for the sake of a wholly speculative dream of a Star Wars defensive system. Not merely is SDI unlikely ever to be able to work as advertised; if it did, it could prove dangerously destabilising unless it was coupled with serious nuclear arms control restraints.

It seems inevitable, therefore, that the Russians will now lay on a heavy propaganda campaign to undermine President Reagan's position.

Some people believe that they will damage their case by overdoing the propaganda, or even by adopting a menacing tone, as they did in 1981-83 during the Euro-missile crisis. But Mr Gorbachev is most unlikely to make that mistake. He may not be willing, in present circumstances, to go to Washington; but the Russians are not about to repeat their mistake of 1983, by walking out of the technical negotiations in Geneva.

In his wooing of Europe, Mr Gorbachev can expatiate on all the wonderful agreements, about which even Mr George Shultz waxed lyrical, and which are there for the asking if only President Reagan would be reasonable about Star Wars. Moreover, he has been careful to prepare his ground, because he has stopped demanding curbs on the plans of Britain and France to modernise and expand their national nuclear deterrents.

Since the US has no reason for walking out, the Geneva negotiations will presumably continue; if the two leaders really reached potential agreements which promised deeper reductions in both strategic weapons and Euro-missiles than anything previously on the table, presumably those agreements will be the basis for detailed treaty-drafting by the Geneva experts.

The Americans have no reason to hold back, because President Reagan must still hope against hope that he can get a nuclear weapons agreement without conceding anything on Star Wars; and Mr Gorbachev will want to be in a position where he can sign a spectacular arms control treaty in January 1989 with the next US President, if he fails to do so with this one beforehand. He just will not sign an agreement without explicit curbs on Star Wars.

President Reagan's mistake so far has been to act as if he believed that Mr Gorbachev desperately needed a nuclear weapons agreement at any price. In fact, Mr Gorbachev needs quite different things, as he has repeatedly made plain: he wants a reduction in international tension, so that he can transfer more resources from defence into the Soviet Union's ailing civil economy, and he wants guarantees against the destabilising dangers of Star Wars.

A deep reduction in nuclear weapons might help to secure or symbolise a reduction in international tension. But it is not the only, and perhaps not even the best, road to an improvement in the international atmosphere; and it would not quickly release large economic resources, because the missiles would take several years to dismantle, and because it is conventional forces which cost the big money.

If a nuclear weapons agreement is blocked by the dispute over Star Wars, it may yet be possible to make progress over other, non-nuclear arms control or confidence-building issues. The Stockholm negotiations produced a significant agreement on the notification and on-site monitoring of troop manoeuvres; it is not entirely implausible to imagine a Soviet attempt to build on this agreement in order to relaunch, in a wider forum, the long-stalled negotiations on conventional force reductions in Europe.

The most tantalising aspect of the Reykjavik meeting is the insinuation that the two sides made substantial progress not merely in the arms control working group, but also in the one dealing with human rights and regional questions, like Afghanistan. This is tantalising because it seems unlikely that Mr Gorbachev could have committed the Soviet Union to specific human rights undertakings, like a target figure for Jewish emigration, for example; and it is hard to imagine any Soviet commitment on Afghanistan — the withdrawal of troops, say — so long as the puppet regime in Kabul remains so feeble.

But if, against all the odds, Mr Gorbachev really has given undertakings which, at least in intention, go to meet western complaints and concerns, then President Reagan's position will become even more vulnerable to criticism. For he would then appear to have jettisoned not merely a spectacular nuclear weapons deal, but also the chance of the beginnings of a political settlement with the Soviet Union, and all for the sake of Star Wars.

We shall not need to be tantalised for very long. Both sides will be so anxious to justify their part in the breakdown of the Reykjavik meeting, that all the facts will start to pour out, if not from Washington then from Moscow, if not from the doves then from the hawks. But we already know who is going to be on the defensive, and who is going to be calling the shots.

US	Warheads		USSR
LONG-RANGE STRATEGIC WEAPONS			
Ground-launched	2110	6420	Ground-launched
Submarine-launched	6656	3216	Submarine-launched
Bomber-launched	4080	1080	Bomber-launched
	12846	10716	
MEDIUM-RANGE WEAPONS			
Pershings & Cruises based in W. Europe	236	810	SS-20s in European USSR
Pershings in reserve in US	42	513	SS-20s in Soviet Asia
	278	1323	

FINANCIAL TIMES
Tuesday October 14 1986

Nigeria to fund forex auctions with loan from West

By Michael Holman in Lagos

NIGERIA has negotiated in principle a $250m bridging loan from the Bank of England and other Western central banks and governments which will help fund the country's new foreign exchange weekly auction.

The development is seen in Lagos as the clearest indication to date of Western governments' support for Nigeria's economic recovery programme, drawn up in close consultation with the International Monetary Fund and the World Bank.

Some technical details of the loan agreement are still to be worked out, but this is expected to take only a few more days. Besides the UK, other contributing countries are the US, France, Germany, Japan, Canada and the Netherlands.

The loan is also seen as evidence that Nigeria's protracted efforts to reschedule its estimated $19bn external debt are making progress. One of the most significant moves has been the recent signing of a letter of intent (called a memorandum of economic policy by the Nigerians) to the IMF for an SDR 650m ($790m) loan.

Although President Ibrahim Babangida has said that he does not intend to draw on the facility – because of considerable domestic opposition – it has given creditors, including Western export credit agencies and commercial banks, the reassurance they needed about his Government's commitment to the recovery programme. The bridging loan, understood to have been agreed last week, would not have been forthcoming, say observers in Lagos, if the Western governments involved did not believe that a satisfactory end to the debt negotiations was in sight.

Most of the countries participating in the bridging loan will do so through their central banks, but the US Treasury will put up money directly, while Germany will use its development agency, Kreditanstalt für Wiederaufbau, rather than the Bundesbank.

The bridging loan will help ensure that a weekly total of $75m is made available until Nigeria can draw on a $450m export promotion and trade development loan from the World Bank. Nigeria's request is to be considered by the bank's executive board this week and approval is regarded as certain, although it will not be possible to draw on the loan until December.

The bridging facility comes at a critical stage in Nigeria's two-tier exchange rate policy introduced last month.

The second tier rate is determined by bids from commercial banks for the weekly allocation of hard currency released by the central bank.

Under the system imports and other transactions are paid for at the rate determined by the bids. Only external debt payments are covered by the first tier at a more favourable rate set by the central bank.

Karpov to meet Thatcher today

Continued from Page 1

versation between President Reagan and Mrs Thatcher, but it was understood there was a certain amount of optimism that the talks in Iceland had come sonear to agreement.

Mrs Thatcher will impress upon Mr Karpov the firmness and unity of purpose of Nato. He will also be told that the UK Government feels that a lot was achieved at the Reykjavik meeting and that the momentum towards a further summit should not be lost.

Initial approaches for Mr Karpov's visit were made by the Soviets at Reykjavik at the weekend. It was approved by Britain yesterday.

Germany considers stake in Belgian nuclear plant

BY DAVID MARSH IN BONN

WEST GERMANY is considering taking a substantial stake in a Belgian nuclear reprocessing plant to increase its ability to deal with spent fuel from atomic power stations in the 1990s.

This emerged yesterday as politicians and the atomic industry weighed up the consequences for West Germany's own controversial nuclear reprocessing plans of the entry of the anti-nuclear Green party into the Bavarian state parliament in Sunday's Bavarian elections.

The Greens, as well as the main opposition Social Democratic Party (SPD), both campaigned against West Germany's planned reprocessing plant at Wackersdorf in eastern Bavaria.

The Greens, however, took votes in Bavaria from the SPD, which polled only 27.5 per cent, its lowest score in the region since the Second World War.

A spokesman for the Deutsche Gesellschaft für Wiederaufarbeitung von Kernbrennstoffen (DWK), the company owned by German electricity utilities which is planning to build the Wackersdorf plant, emphasised yesterday that the Christian Social Union (CSU) maintained its absolute majority in the Bavarian polling with 55.8 per cent of the vote. This compared with the 7.5 per cent won by the Greens.

He said that Wackersdorf – where preliminary building work has been underway since December 1985 in spite of frequent demonstrations against the plant – would go into service as planned in 1995.

The reprocessing plant, with a capacity of 350 tonnes a year, is designed to separate burnt uranium fuel from nuclear power plants into reusable uranium as well as plutonium.

To supplement DWK's reprocessing ability over the next decade, the company is due to discuss at a board meeting on November 4 a possible stake of 20 to 25 per cent in a reprocessing plant planned at Mol in Belgium.

This plant, shut down in 1974, is due to be reactivated in the early 1990s by the Belgian Government, which will take a 55 per cent participation. Swiss utilities are believed to be interested in the remaining stake of about 20 per cent.

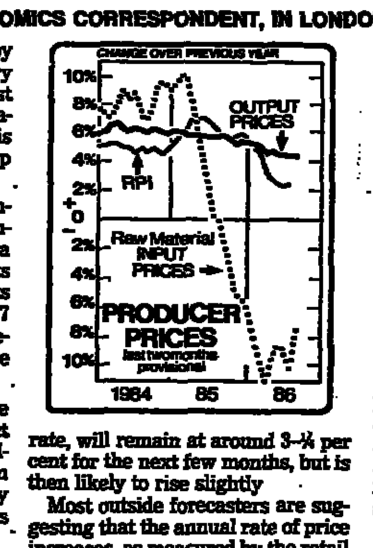
The DWK spokesman said the Mol plant, with a capacity of 150 tonnes a year, would supplement rather than replace Wackersdorf.

The SPD has recently stepped up its attack on the reprocessing plans of the right-wing coalition Government in Bonn. Mr Wolfgang Roth, deputy parliamentary manager for the SPD, last week repeated claims that the Government wanted to press forward with reprocessing plans to give it the option of using plutonium for military purposes. The accusation has been denied by government spokesmen.

Sharp rise in UK input costs threatens rise in inflation rate

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT, IN LONDON

A SHARP rise in the prices paid by Britain's manufacturing industry for fuel and raw materials last month has strengthened expectations that the UK's inflation rate is now set to rise again after the steep falls earlier this year.



The Department of Trade and Industry said yesterday that manufacturers' input costs rose by a hefty 1.7 per cent in September. Its index of fuel and raw material costs also showed that prices rose by 0.7 per cent in August against the previously published provisional figure of no change in that month.

The increases in costs over the latest two months largely reflect sterling's sharp fall against the dollar and an upturn in oil prices from their low point in the spring. They follow months of consecutive falls in input prices.

Last week, Mr Nigel Lawson, the Chancellor of the Exchequer said that a re-elected Conservative Government would be aiming for zero inflation in the next parliament. Officials, however, regard the statement as a long-term political promise rather than any reflection of the immediate outlook.

The Treasury's own projections suggest that the underlying pace of inflation, which excludes fluctuations in the home loan mortgage rate, will remain at around 3-¾ per cent for the next few months, but is then likely to rise slightly.

Most outside forecasters are suggesting that the annual rate of price increases, as measured by the retail price index, may double from the present 2.4 per cent by the end of 1987. RPI figures for September, due at the end of this week, are expected to show an annual rate of close to 3 per cent.

The rise in input costs is not expected to result in an immediate upsurge in output prices, largely because of the benefit they received from the halving of oil prices and weak international commodity prices earlier in the year.

Despite the increases over the last two months, a year-on-year comparison shows that manufacturers' fuel and raw materials in September were still costing 7.4 per cent less than in the same 1985 month.

That sharp drop, however, has not been reflected in any comparable reduction in factory gate prices, largely because wages, which make up around 70 per cent of overall costs, are still rising much faster than inflation.

The latest figures show that output prices rose by 0.3 per cent in September, to give a year-on-year increase of 4.4 per cent, the same as in August. That annual rate has fallen only slightly this year, from about 5 per cent in January.

The Government's concern is that with input costs now rising, industry will begin to raise its output prices. The recent sharp drop in sterling's value could encourage that process because it will eventually lead to higher prices for imported goods.

Fears in financial markets about prospects for higher inflation have also been fuelled by the reluctance of the Government to damage its political standing by putting up interest rates to defend the pound.

EEC warns on cost of farm programme

BY TIM DICKSON IN BRUSSELS

EUROPE'S finance ministers were yesterday given a grim account of how farm spending threatens to upset EEC budget calculations for 1987.

The message – delivered by a team of key EEC Commissioners, President Jacques Delors, Farm Commissioner Frans Andriessen and Budget Director Henning Christopherson – was aimed as much at the EEC's agriculture ministers, who were holding their monthly meeting simultaneously in Luxemburg.

Those present proved surprisingly reluctant to disclose the latest estimates of the cost of agricultural spending for next year. But it is no secret that the sharp fall in the dollar, the weakness of world commodity prices and the growing financial burden of the Community's food stocks is playing havoc with the Commission's earlier predictions.

Several figures were being mentioned last night but it appears that on current projections, the farm spending overrun for 1987 could be of the order of Ecu 2bn to Ecu 3bn. ($2.09bn to $3.14bn).

Significantly, the Commission's warning prompted an immediate response from Mr Nigel Lawson, the UK Chancellor of the Exchequer, who is currently chairman of the EEC finance ministers. He called for early decisions on the proposals recently put forward by the Commission "for changes in some of the sectors which are in structural surplus."

The British presidency also issued a statement setting out several principles aimed at bringing expenditure under control and disposing of surplus stocks. These were that:

- Community support prices should more closely reflect supply, demand and market conditions.
- The intervention system should operate according to its intended role, as a safety net to support the market at times of particular pressure, and not as a standard alternative marketing outlet.
- Price support policies should, wherever possible, be flexibly operated so that commercial risks are not borne entirely through public finance.

Norway under pressure over French imports

By Fleming Dahl in Oslo

NORWAY is under pressure to increase imports from France to win the Paris Government's approval of an estimated NKr 500bn ($65bn) deal for the export of Norwegian natural gas to France, West Germany, the Netherlands and Belgium, according to government officials in Oslo.

The officials are concerned that the Paris Government could still scrap the deal, but they hope an agreement can be reached through further talks.

The preliminary agreement for the sale of gas from the Troll and Sleipner North Sea fields to the four European countries between 1993 and 2020, was signed by Statoil, Norway's state-owned company, and European distribution companies in May.

It depended on approval from the receiving countries' governments by October 15 and from Oslo by the end of the year.

The officials in Oslo believe French approval will be delayed because Norway has still not yielded to the French pressure.

Shamir hopes to avoid war with Syria

By Andrew Whitley in Jerusalem

MR Yitzhak Shamir, leader of the right-wing Likud bloc who is expected to be named today as Israel's ninth Prime Minister, said yesterday that he hoped war with Syria could be avoided.

His comments came as concern mounted in the West about possible involvement by Syria in recent terrorist incidents. "Syria is now our only security problem" said Mr Shamir.

Mr Shamir also said that he would revert to a reliance on the 1979 Camp David framework and direct negotiations with Egypt and Jordan in his efforts to find a settlement to the Middle East question.

The veteran right-winger is due to take office this week in the second part of the two-stage rotation accord reached in September 1984 with Mr Shimon Peres, the Labour leader who stepped down as Prime Minister last Friday.

Mr Peres devoted much of his energy recently to an ultimately unsuccessful effort to achieve a breakthrough in Middle East peace negotiations, primarily on the Palestinian question. Mr Shamir, Foreign Minister for the past two years, disassociated himself from his rival's efforts.

Mr Shamir did not rule out the possibility of an international "forum" to accompany direct peace talks – an apparent softening of his earlier outright rejection of the concept. But, he said, the strict limitations Israel would insist on made the idea unrealistic.

Mr Shamir forecast that the present grand coalition could remain in power after the scheduled 1988 elections and said he hoped Mr Peres realised this. "This Government serves the interest of the country, especially in the economic area," Mr Shamir said in an interview with the Financial Times.

Labour has threatened to pull out of the coalition, forcing fresh elections, if serious differences emerge in the coming months.

Commenting on the high rating that repeated opinion polls have given to the twin-headed administration, he said; "I am not sure whether, after the next elections, we won't also have a national unity Government. The people like it."

Empasising that he would be sticking rigidly to the coalition guidelines set in 1984, Mr Shamir said he envisaged no "basic changes" of policy on economic or social issues.

On foreign affairs, there would be "differences of emphasis" in how the Shamir-led national-unity Government would deal with Israel's neighbours.

Mr Shamir stressed that the main thrust of his economic policy would be to preserve the newly achieved stability. He indicated the Government would move towards the reform of taxation and investment policies. He wanted to strengthen the business sector, promoting industrial production and exports.

A diminutive figure with distinctive bushy eyebrows and a gruff public manner, Mr Shamir was picked by the Likud Party as a stand-in leader following the surprise resignation of Mr Menachem Begin, the Party's founder and mentor, in August 1983. He subsequently served out the remaining year of Mr Begin's term in office as Prime Minister.

Two years later, Mr Shamir returns to the premiership position with Likud still under potential challenge. trouble may also be in store from a more dangerous direction: the allegations that he was involved in a cover-up of the 1984 killing by the security forces of two captured Palestinian bus hijackers.

THE LEX COLUMN

Avis tries even harder

Avis Europe must have longed for the day when it could escape from a succession of US parents. For three of the last five years it has handed over more than its after-tax profits in dividends. But yesterday's pathfinder prospectus gives the impression that even the flotation at the end of this month is more for the convenience of its latest parent, Wesray, than for Avis Europe itself.

While Wesray, which only acquired Avis in April, is taking out around £140m directly and keeping a 35 per cent stake, Avis Europe will only get about £30m from the new shares (some of them preference shares) issued. And then Avis Europe must give back £15m to Wesray for the right to use the Avis name, without which Avis Europe would be worth a lot less than the £270m-odd market capitalisation it is likely to reach.

Left with £15m to set itself up as a free-standing company, Avis Europe can do little more than cut its gearing from nearly 100 per cent to around 70 per cent and talk about expanding its fleet leasing business.

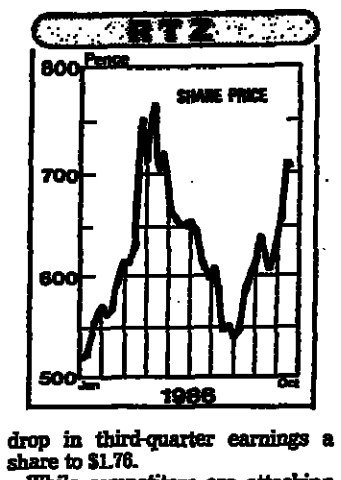
At least it will be able to use the dollops of cash that car rental businesses churn out largely for itself. Maybe that thought is behind the forecast of a near 30 per cent rise in profits this year to £33m despite the Libya-effect hitting leisure hirings this summer, requiring a quick cutback in the fleet.

The skill in the car rental business is in keeping a fleet of the right size and in the right places to maintain a high enough utilisation rate: in Avis Europe's case of about 85 per cent.

About £30m-worth of the shares being offered will go to European issue managers, some for their own accounts. The rest should not be too hard to sell on a prospective p/e of around 14.5. Once alone, Avis Europe should be able to make more of a fast growing market than it has before.

IBM

Things were bad enough when IBM had only the sluggishness of the US economy to contend with. Now that sales in Europe and Japan are slowing down as well, IBM has too little business to spread its overheads across. At the same time the shift from rentals to outright sales in recent years has removed that element of stability in earnings. The result is the near 27 per cent



drop in third-quarter earnings a share to $1.76.

While competitors are attacking every part of the product range from personal computers to mainframes, IBM cannot afford to give up on new product launches. Nor can it avoid joining in with its rivals' price cuts.

Offering employees early retirement is hardly enough to restore margins. At least the lower dollar is having a cosmetic effect, contributing about 75c to earnings of $5.53 a share in the first nine months. Forecasts of earnings around $9 for the year (down from $10.67) should stop the shares falling much further, but only an optimistic view of US economic growth in 1987 makes this a buying opportunity.

RTZ/CRA

It is sometimes hard to believe in the theory of the perfect market. It has been known for years that RTZ would reduce its stake in CRA below 50 per cent, yet the announcement that the deed had actually been done caused RTZ's share price to jump 7p to 719p in early trading.

The effect of changing CRA from a subsidiary to an associate has some pleasant effects on RTZ's profit and loss, quite apart from interest receivable on the £55m proceeds. Not consolidating the depreciation charge arising from CRA's revaluation of fixed assets adds an annual £17m to the net earnings figure. This will bring RTZ's prospective p/e back into single figures, while net gearing will fall from 64 per cent to 45 per cent. No doubt those speculators who have been ramping RTZ as a bid target will now claim that the company is clearing its decks.

Yet in the real world the change to RTZ should be minimal. Consolidated cash flow may come down from about £1bn a year to £800m, but the only cash that CRA ever remitted to its former parent was the dividend. And if CRA's financial position were to become parlous RTZ is hardly likely to regard its obligations any less seriously because it no longer has a controlling stake. Such mature considerations brought the share price back down to 709p by the close.

USM

Fears that USM shares will wither in the wake of lack of interest by market-makers post the City of London's Big Bang seem far-fetched if James Capel feels justified in launching 50 pages a month of research on the breed. The wide spread between buying and selling prices that characterises the USM stocks should prove attractive to even the biggest dealers when price competition among the alpha stocks becomes intense.

But James Capel's anxiety to arouse investor interest in the gamma stocks of the brave new market may have caused it to overstate the merits of the USM. It is true that the 50 per cent underperformance of the USM against the All-Share index during the past five years is partly a function of the best stocks leaving to join the main market.

Yet the conclusion that a properly adjusted USM index would have outperformed the All-Share by 17 per cent is far-fetched. To reduce the USM weighting in oil explorers and electronic stocks to All-Share proportions is one thing. But then to weld on to the resulting USM index the far higher price earnings multiple growth of the All-Share and claim the result a success is double-counting of a peculiar virulence.

One of the reasons why USM shares have not risen as fast as the blue chips is lack of liquidity. To attribute to smaller stocks the trading potential that comes from broad-based demand is over-optimistic. The Capel argument that the ideal USM portfolio should be based on the All-Share weighting is fine in theory but impossible in practice. The biggest sector in the All-Share, oil and gas, is overwhelmingly dominated by BP and Shell – the kind of safe integrated oil businesses that are simply not found among smaller oil exploration stocks.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	27	81	Dubrovnik	S	22	72	Malta	C	25	77	Rhodes	S	24	75
Algiers	F	27	81	Edinburgh	F	14	57	Manchester	C	15	59	Rio de J'o	C	23	73
Amsterdam	S	16	61	Faro	F	21	70	Manila	C	29	84	Rome	S	24	75
Athens	F	22	72	Florence	S	25	77	Melbourne	–	–	–	Salzburg	S	17	63
Bahrain	S	32	90	Frankfurt	S	16	61	Mexico City	–	–	–	San Francisco	C	19	66
Bangkok	R	31	88	Funchal	–	–	–	Miami	C	31	88	Seoul	C	18	64
Barcelona	F	23	73	Geneva	C	15	59	Milan	S	20	68	Singapore	F	31	88
Beirut	–	–	–	Gibraltar	F	22	72	Montreal	C	14	57	Stockholm	S	12	54
Belfast	C	14	57	Glasgow	S	13	55	Moscow	C	9	48	Strasbourg	F	12	54
Belgrade	S	19	66	Guernsey	S	16	61	Munich	S	16	61	Sydney	S	25	77
Berlin	S	18	64	Helsinki	S	14	57	Nairobi	F	28	82	Taipei	S	26	79
Biarritz	C	20	68	H. Kong	S	28	82	Naples	S	25	77	Tangier	F	23	73
Bombay	S	30	87	Innsbruck	S	18	64	Nassau	R	32	90	Tel Aviv	F	26	79
Bordeaux	S	22	72	Inverness	S	14	57	New Delhi	S	31	88	Tenerife	C	23	73
Brussels	S	18	64	Islamabad	C	32	90	New York	R	16	61	Tokyo	C	21	70
Budapest	S	17	63	Istanbul	F	18	64	Nice	C	22	72	Toronto	C	14	57
B. Aires	S	26	79	Jakarta	R	30	86	Nicosia	S	26	79	Tunis	S	28	82
Cairo	S	28	82	Jersey	S	19	66	Oporto	F	20	68	Valencia	S	23	73
Cape Town	F	19	66	Jo'burg	S	28	82	Oslo	C	11	52	Venice	S	21	70
Caracas	R	27	81	Lima	C	19	66	Paris	S	19	66	Vienna	S	16	61
Casablanca	F	23	73	Lisbon	F	19	66	Peking	C	20	68	Warsaw	S	14	57
Chicago	C	18	64	London	C	14	57	Prague	S	17	63	Washington	R	16	61
Cologne	S	17	63	Los Angeles	S	26	79	Reykjavik	R	7	45	Zurich	S	16	61
Copenhagen	S	12	54	Luxembourg	S	15	59								
Corfu	S	26	79	Madrid	F	18	64								
Dallas	–	–	–	Majorca	S	25	77								
Dublin	C	13	55	Malaga	S	23	73								

Readings at mid-day yesterday.
C–Cloudy D–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sun Sl–Sleet Sn–Snow T–Thunder

Chirac says inflation rate must fall

BY DAVID HOUSEGO IN PARIS

MR Jacques Chirac, the French Prime Minister appeared yesterday to signal a new tightening of economic policy in France by saying that the country must get its level of inflation down to that of West Germany.

Mr Chirac made his comments after confirming that the consumer price index rose by 0.3–0.4 per cent in September after two months in which the increase had been held to 0.1 per cent. The sharp increase was due largely to the rise in petrol prices but comes at a time when the Government is worried about the prospect of difficult months ahead, with complete price decontrol due to be enacted in France.

Mr Chirac said that what worried him was not the September figure – both Germany and Switzerland had recorded a 0.2 per cent rise last month – but that inflation remained "excessive". He blamed differences in France's inflation rate from that of its Western partners for the country's loss of market share in world trade in manufactured goods.

France's inflation rate had fallen to 2 per cent on an annual basis at the end of August, compared with 4.7 per cent at the end of 1985 and 6.7 per cent in 1984. Mr Chirac condemned the Socialists' anti-inflationary policies – normally considered one of its successes – as a failure, and said his Government had not yet been able to master the problem.

He said that this pointed to the need for rigorous control of government spending.

Mr Chirac's apparent pointer to a tightening of policies also coincides with French concern over the pressure on the franc as a result of the continuing strengthening of the D-Mark within the European Monetary System.

The French monetary authorities expect that the franc will have a bumpy ride within the EMS over the coming weeks until the West German elections. Bankers and even some officials see a revaluation of the D-Mark as inevitable after the elections – on the assumption that the West Germans will continue to refuse to lower interest rates.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Tuesday October 14 1986

FORMER BANKAMERICA CHAIRMAN CRITICISED

No Wall Street welcome for Clausen

BY WILLIAM HALL IN NEW YORK

THE SURPRISE decision to reinstall Mr Tom Clausen, former head of the World Bank, as chairman and chief executive of BankAmerica is not the sort of top management change likely to win immediate accolades on Wall Street.

Mr Clausen, aged 63, headed the group during its period of rapid growth during the 1960s and 1970s. When he was rewarded with the presidency of the World Bank six years ago, Mr Samuel Armacost, his handpicked successor, inherited the biggest bank in the world and one of the most profitable.

Today BankAmerica is in serious trouble. It has lost more than $1bn in the past five quarters and passed its dividend. Its non-performing loans of $5bn overshadow its shareholder funds of $4bn. Whether fair or not, many Wall Street analysts criticise Mr Clausen for some of the group's problems. In particular, they cite the group's large exposure to troubled Third World countries, a failure to invest in new technology and a breakdown in credit quality controls, for which the group is now paying a stiff price.

Mr David Cates, a leading US bank consultant, sums up the view of many observers when he says: "The return of Tom Clausen, who is a major part of the entire problem, is inconceivable to me."

Mr Dan Williams, who watches BankAmerica for the San Francisco firm of Sutro and Company, says that "Clausen was in the driving seat when the bank went through a very aggressive programme that saw it become, at least fleetingly, the largest bank in the world. And they have been regretting it ever since."

Another leading bank analyst said last week, on hearing rumours that Mr Clausen was going to replace Mr Armacost, that "I do not think that there would be a shareholder in the world who would get any comfort from Mr Clausen's taking over the reins. He is partly responsible for the problem. He came from the old BankAmerica culture of not laying off anybody and making international loans."

Mr Don Crowley, a leading bank analyst at the San Francisco office of Keefe Bruyette & Woods, is one of the few analysts who welcomes Mr Clausen's appointment, which he describes as "a positive move" in the group's efforts to rebuild its credibility on Wall Street.

Mr Tom Clausen: Rank and file support

"What the press and Wall Street fail to recognise is that Mr Clausen has an enormous constituency among the rank-and-file employees of Bank of America and its customers," says Mr Crowley. Mr Clausen is still associated with the best years in the company's history and has the international stature which should instill confidence in the group's important overseas operations. He will be a "stabilising influence" and, given his age, can be regarded as a temporary chief executive who will hand over to a younger manager when the group's financial problems are on the mend. Mr Tom Cooper, aged 50, who joined the group last year and has been appointed president and chief operating officer of the corporation and the bank, seems his most obvious successor.

However, BankAmerica's long-term future remains uncertain despite the ousting of Mr Armacost and Mr Leland Prussia, the chairman of BankAmerica who is taking early retirement. If BankAmerikca is to survive as an independent entity, Mr Clausen and Mr Cooper will have to work fast to rebuild its credibility on Wall Street where repeated assurances by the previous management that the worst was over have been followed by even bigger losses, culminating in the second-quarter 1986 loss of $640m. The group's weak share price has already attracted the attention of corporate predators and First Interstate BankCorporation, a smaller but more profitable rival has offered to buy the group for $2.8bn.

Mr Larry Cohen, a bank analyst with Merrill Lynch, says that the only way the management reshuffle can work is if the stock exchange perceives the change as being such a "positive event that it will drive the stock price to a level that would dissaude First Interstate from pursuing its acquisition." His blunt conclusion is that he does not expect this to happen and he describes Mr Clausen's appointment as "a non-event."

While this assessement may be unduly harsh, Wall Street is far from convinced that last weekend's management reshuffle at America's second biggest banking group is going to mark the turning point in its fortunes.

Wall Street would have preferred the appointment of an outsider – a banker who can be ruthless and is not hindered by old memories and old allegiances. Although he has been away from the group for six years, Mr Clausen played a key role in putting together the present board of BankAmerica and many people argue that the failure of this board to act more quickly in challenging Mr Armacost's management is the main reason why BankAmerica finds itself in such a parlous financial condition.

Imasco sells five US plants to Domtar

By Robert Gibbens in Montreal

IMASCO, the financial services, fast food, tobacco and retailing group, has sold five US construction materials plants to Domtar of Montreal, for US$241m or C$335m. Domtar becomes the third largest gypsum wallboard manufacturer in the US and will have a 12 per cent market share.

Imasco just over 40 per cent owned by BAT Industries have been selling off all the assets of Genstar Corporation, which it acquired for C$2.5bn early this year, excepting Canada Trustco, Canada's seventh largest financial institution.

With the sale of the Genstar Gypsum Products Company, of Irvine, Texas, and its five manufacturing plants, Imasco has raised a total of about C$2bn from these assets sales. Two more US construction materials subsidiaries and Genstar's property assets in Canada and the US remain to be sold.

Imasco's target is to raise a net C$800m at least, after debt and taxes, from the asset sales.

Domtar will complete its network of gypsum wallboard plants through the US with the latest deal. Genstar Gypsum Products is a self-sustaining profitable business and its five wallboard plants dispersed across the US are based on local gypsum mines. Domtar already has a large wallboard paper plant in California.

Domtar, controlled indirectly by two agencies of the Quebec Government, is Canada's largest fine paper producer, is a major factor in market pulp and newsprint, holds about 30 per cent of the Canadian gypsum wallboard market and also operates in speciality chemicals. The Government plans to divest its indirect control in the next few months.

Iveco expects an increase of 50% on 1985 surplus

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT, IN BIRMINGHAM

IVECO managing director, Mr Giorgio Garuzzo, said yesterday that his company's net profit this year would show an increase of about 50 per cent on the 1985 level. Iveco is the Fiat-owned group which is Western Europe's second largest heavy vehicle producer.

Last year Iveco, which is registered in Amsterdam, reported a net profit of Fl 120m ($53.5m) following a Fl 395m loss in 1984.

The profit increase has been achieved despite a drop in export sales and severe competition in Western Europe which together will cut Iveco's output of vehicles over 3.5 tonnes gross weight this year from 99,000 in 1985 to 95,000.

The fall in unit sales coupled with the drop in the value of the US dollar – Iveco invoices 15 to 20 per cent of sales in dollars – will restrict turnover to about last year's Fl 8.9bn, said Mr Garuzzo, speaking during the run-up to the Birmingham Motor Show.

He said Iveco will not consolidate the first six months' results from its new joint company in the UK, Iveco Ford Truck, which is 49 per cent owned and managed by his group. Ford of Britain owns another 49 per cent and the rest of the equity is held by an independent bank.

Mr Garuzzo said Iveco Ford Truck will draw up its first set of accounts, containing all the start-up costs, after six months.

So far the UK company, which has bought the Ford cargo truck plant at Langley in Berkshire, and has more than 20 per cent of the heavy truck market, is developing exactly as planned, he added.

This year is the first for some time in which Iveco, which developed from the merger of Fiat's heavy commercial vehicle operations in Italy, Unic in France and Magirus in West Germany, will not have to face extraordinary losses arising from rationalisation measures. "1986 is a normal year," said Mr Garuzzo.

People Express warns of 'substantial' loss

BY OUR NEW YORK STAFF

PEOPLE EXPRESS, the troubled cut-price US airline, expects to report a "substantial" loss in the third quarter.

The loss will include a deficit of about $55m from Frontier Airlines, the subsidiary which the group put under the protection of the Chapter 11 US bankruptcy code in August.

People last week revealed a fall in revenue passenger miles for September – against the trend for other US airlines. It agreed on September 15 to be taken over by Texas Air, which has asked the US Transportation Department to approve the acquisition by tonight.

Tomorrow People is due to pay $13.4m in interest commitments. Warning of the expected loss was sent in a letter yesterday to the company's debt holders, who are being asked to accept lower interest rates as a condition of the Texas Air takeover.

People said it would require extra money above Texas Air's commitments. Texas has agreed to provide $54.5m before the merger, and has already advanced about $30m.

In the absence of further funds from Texas Air, People believes it will be unable to meet its future cash requirements, including the $13.4m required tomorrow.

TRW quarterly results show a return to profit

By Our New York Staff

TRW, which makes a wide range of high-technology transport and communications products, has reported third quarter net profits of $40.5m, or $1.24 a share, compared with a loss of $110.3m a year earlier. Sales slipped slightly to $1.43bn from $1.46bn.

The year-earlier deficit included, however, a $142m loss from discontinued operations and a $80m net restructuring charge.

The company said the latest earnings were adversely affected by weak demand in commercial electronics and a defence electronics subsidiary's difficulties in meeting contract performance specifications. It also pointed to lower volumes and margins in North American motor vehicle component markets.

In contrast, its information systems and European car component businesses performed well, it added.

Operating profits for electronic and space systems fell 18.3 per cent in the third quarter to $58.8m from $72m on sales of $835.5m against $839.2m.

Campeau receives more than two-thirds of Allied shares

BY DAVID BLACKWELL IN NEW YORK

CAMPEAU, the Canadian property developer, has received more than two-thirds of Allied Stores' shares in response to its $66 a share tender offer for the big US retail group.

The offer, which was sweetened late last week by a Campeau plan to declare a one-time dividend of up to $3 a share for current Allied shareholders, was extended until midnight last night.

Allied last week agreed to be acquired for more than $3.5bn or $67 a share by ASC Acquisition, a company owned by the Edward J. Debartolo group, the biggest US developer of shopping malls, and Mr Paul Bilzerian, a Californian investor.

Campeau's dividend pledge effectively raises its offer to $69 a share. If it did acquire Allied, said Campeau, it would elect a new board and cause a $2 per share dividend to be declared, which would be increased by up to $1 a share from savings obtained by the ending of the Debartolo offer.

Campeau, which has been chasing Allied for some weeks, said: "It is clear shareholders overwhelmingly tendered to the Campeau bid and want to take advantage of the Campeau offer."

Allied and ASC have obtained a restraining order from the New York federal court which stops Campeau from carrying through its offer until a court hearing next Monday.

Sharp decline for Teledyne

By Our New York Staff

TELEDYNE, the Los Angeles-based diversified manufacturing group, suffered a setback in the third quarter, with net profits declining to $89.2m, or $5.91 a share, against $99.7m, or $8.51 a share last time. Revenues improved slightly, from $786.8m to $794.5m.

The latest quarter includes gains on sales of investments of $5.5m, against $42.5m last time. Also included is a $2.2m gain, as opposed to a $9m loss last time, from Argonaut Insurance, which is being spun off to Teledyne's shareholders.

NCR ahead and sees record year

BY OUR NEW YORK STAFF

NCR, the US computer and transaction processing equipment group, lifted third-quarter net earnings to $73.4m or 75 cents a share, a 2 per cent increase over the $71.7m or 72 cents earned in the corresponding period a year earlier.

The gain took nine-month earnings to $202.5m or $2.05 a share, against $182m or $1.82 a share.

Revenues for the quarter rose to a record $1.18bn from $1.04bn, and for the nine months to $3.31bn from $2.9bn. Sales gains were strongest in the European and Japanese markets, the group said.

Consolidated world wide orders valued in dollars showed strong gains, but in the US orders were slightly down for the quarter.

Mr Charles Exley, chairman and president of NCR, said the order softness in the US reflected the continuation of adverse market conditions. Indicators pointed to the US slowdown continuing into the foreseeable future, he said, and the company saw no signs of a general recovery as yet.

However, he expected 1986 would be a record year for the company.

In early trading on the New York stock exchange NCR shares were down $1⅛ at $43⅝.

Weak $ helps Pfizer to show gains in quarter

By Our New York Staff

THE WEAKNESS of the dollar helped Pfizer, the US pharmaceuticals and health care group, to show gains of 15 per cent in world sales and 14 per cent in net income for the third quarter.

Profits were $178.6m or $1.04 a share on sales of $1.18bn, compared with $155.5m or 92 cents a share last time on sales of $1.01bn.

The improvement took nine-month earnings to $501.6m or $2.96 a share against $440.4m or $2.61 a share. Revenues rose to $3.31bn from $2.97bn.

Strong sales gains were achieved in all five business sectors. Health care rose be 16 per cent, consumer products by 17 per cent, special chemicals by 8 per cent, agricultural by 13 per cent and materials science by 90 per cent.

Among the Pfizer drugs that continued to do well were Feldene, used in arthritis cases, and Procardia, used for angina. Glucotrol, an anti-diabetic drug, also performed well.

Mr Edmund Pratt, chairman and chief executive, said the effect of currency translations had improved world sales growth from 8 per cent to 15 per cent in the quarter and from 6 per cent to 12 per cent for the first nine months, as well as helping profits.

● Abbott Laboratories, the large US diversified health care group, lifted third-quarter net earnings to $122.72m or 53 cents a share from $106.72m, or 44 cents last time.

This took the nine-month total to $379.86m or $1.62, up from $323.93m or $1.35. Sales reached $2.74bn, compared with $2.41bn, with a third-quarter rise to $940.9m from $822.7m.

The latest quarter profit was after an exchange loss of $1.98m, against a gain of $531,000 last time. For the nine months there was an exchange loss of $7.2m, against a $5m gain a year ago.

INTL. COMPANIES and FINANCE

Promet fails in action to fend off receivers

By Wong Sulong in Kuala Lumpur

HOPES FOR Promet, the financially troubled Malaysian-Singapore oil rig, engineering and construction group, of avoiding dismemberment and possibly liquidation, are fast receding following its failure to get the courts in Malaysia and Singapore to lift orders for receivership.

According to bankers in Kuala Lumpur, the appointment of Peat Marwick Mitchell as receivers means that the first priority of the creditor banks is to get a full report on the group's financial position and assets, before deciding which assets are to be sold.

Promet owes about 329m ringgit (US$122m) to 15 creditor banks, of which only 10 per cent is secured. Most of its assets are held by the parent company in Malaysia, while most of the loans have been taken by a Singapore subsidiary.

In its petitions to the high courts in Kuala Lumpur and Singapore last week to lift the receivership orders, Promet argued that group assets had been professionally valued at around 660m ringgit, and said it could meet its loan obligations if it were free to sell off its assets as an operating company.

It offered a scheme to set off its assets against loans and Mr Brian Chang, Promet's managing director, offered to step down to allow the banks to appoint their own management. The banks said, however, that they had lost confidence in Mr Chang, and saw little hope of Promet surviving under its present structure.

The banks argued they had been very patient, but saw little hope of Promet turning round in the near future, because its main activities—construction and marine fabrication works—were still in deep recession.

The banks are not impressed by the argument that the value of Promet's assets far exceeds its debts. It is very unlikely that any corporation would want to take over the group as it is presently structured. "Buyers are interested in the parts, but not the entire group," said one banker.

According to a report by Arthur D. Little, the management consultant, creditor banks can expect 30 cents on the dollar if the group's assets are scattered through forced sales.

Leading creditors include Manufacturers Hanover Trust, First Interstate Bank of California, Morgan Guaranty Trust and Hongkong and Shanghai Bank.

Promet has a paid-up capital of 335m ringgit, and in 1983 it had a peak market capitalisation exceeding 1bn ringgit. Its shares were suspended last month at 50 cents, for a capitalisation of 167m ringgit.

Australian group to pay $500m for Macy centres

BY ROBERT KENNEDY IN SYDNEY

THE AUSTRALIAN assault on the US retail property market accelerated yesterday when Westfield Holdings announced it had beaten 20 rivals to secure agreement to buy a majority interest in eight shopping centres from R. H. Macy, the US retailer, for US$500m.

The purchase, one of the largest corporate moves by an Australian company abroad, expands the US property presence which Westfield and two other Australian companies, Lend Lease and Hooker Corporation, have developed this year.

While Westfield was preparing to announce its purchase of the Macy properties, Lend Lease's offshoot, IIP, revealed yesterday that it had paid A$74m (US$47.5m) for the outstanding 50 per cent of a shopping centre in Pennsylvania.

Hooker surprised the US property market earlier this year when it announced an A$750m push into US shopping malls.

Macy Merger, the R. H. Macy vehicle, is expected to complete the sale to Westfield by the end of the year, in what will be one of the largest shopping centre deals undertaken in the US.

A Westfield director last night confirmed in Sydney that Westfield had bid for the properties. The company already owns five other shopping centres in the US and was the highest bidder for the Macy transaction.

According to US reports, Macy intends to use the proceeds to help finance its US$3.7bn leveraged buyout which turned the new entity into a private company in July.

Mr Frank Lowy, Westfield executive chairman, has said in the past that the US property market held obvious attractions for his company because of its size.

Westfield announced at the start of the year its latest foray into the US after completing the purchase of a shopping centre in California's Silicon Valley for A$125m. The transaction represented the group's fifth in the US and came on the heels of Lend Lease's A$90m purchase of a two-level shopping mall in Las Vegas.

Kerr-McGee joins Saudi petrochemical venture

BY FINN BARRE IN RIYADH

KERR-MCGEE, the US chemical and energy company, has signed a joint venture agreement with Shairco the Saudi trading company, to build a 45,000-ton per year titanium dioxide plant in the Red Sea port of Yanbu. The plant will cost about $75m-$85m, while the entire project is estimated at $120m.

At least 50 per cent of the pigment, used in paints, plastics, and other products, will be exported. Although titanium has been discovered in Saudi Arabia, it is not mined and the plant will use little Saudi input.

It will, however, benefit from subsidised electricity.

Construction will take 18 to 20 months, and should be completed by mid-1989.

Kerr-McGee and Shairco will each hold 25 per cent of the new company, Xenel Industries, Al-Zamil Industries, Abdullah Hashim Holding, all of Saudi Arabia, and Gulf Investment of Kuwait have expressed interest in joining the project.

The joint venture company, Crystal Pigment, has applied for a low-cost loan for half the project cost from the Saudi Industrial Development Fund.

Earnings at Gulf Air decline 28%

GULF AIR'S 1985 net profit fell by 28 per cent to BD 13.73m ($36.5m) from BD 19.19m in 1984, due mainly to the impact of worldwide inflation and higher operating costs, Reuter reports from Bahrain.

Mr Abdulla bin Nasser al Suweidi, airline chairman, said in the annual report: "1985 commercially was a difficult year in the region as well as for the airline industry as a whole."

Fuel costs made up 21.9 per cent of total operating expenditure after 23.1 per cent in 1984. Mr al Suweidi said the recent fall in crude oil prices had depressed the region's economy, outweighing the advantage of reduced fuel costs for Gulf Air.

Gulf Air is owned by the governments of Bahrain, Oman, Qatar and Abu Dhabi. The consolidated financial statement shows 1985 revenue slightly down at BD 235.6m after BD 237.6m in 1984.

Expenditure rose to BD 222.6m from BD 211m. This gave a profit on 1985 operations of BD 12.9m after BD 26.6m a year earlier.

UAE bank cuts capital

SHAREHOLDERS of the troubled Bank of the Arab Coast in the United Arab Emirates have agreed to cut authorised capital to 40m dirhams ($10.9m) from 100m dirhams as part of a rescue package set up with the backing of the Government of the Ras al-Khaimah emirate, Reuter reports from Abu Dhabi.

The nominal share price of the 20m shares has been cut to 2 dirhams from 5. At the same time, shareholders have been asked to put up an extra 2.5m dirhams to boost paid-in capital of 37.5m dirhams to the minimum 40m dirhams required.

The bank's shareholders, who include Kuwait investors, members of the emirate's ruling family and First Gulf Bank, based in the emirate of Ajnan, were given until November 15 to pay in the fresh capital at a rate of 12.5 fils per existing 2 dirham share.

High prices cushion Rand Mines

BY KENNETH MARSTON, MINING EDITOR

RECORD gold prices received in the September quarter by the gold producers in South Africa's Rand Mines group have more than offset the full effects on profits of the wage increases granted to white and black employees during the period.

The gearing effect of a higher gold price on income of the marginally profitable mines shows up in the sharp increase in earnings of the veteran Durban Deep.

However, there is still a loss — albeit reduced — in the case of East Rand Proprietary Mines, which has not received state assistance on the latest occasion but has been given a tax rebate. The mine also reports a state-guaranteed loan agreement covering funds to a maximum of R200m ($89.7m or £63m).

GOLD MINE NET PROFITS

	Sept qtr R000	June qtr R000	Mar qtr R000
Blyvooruitzicht ...	19,565	18,402	14,471
Durban Deep ...	9,782	5,212	3,002
East Rand Pty ...	‡336	*‡1,486	*4,939
Harmony	67,758	†59,729	47,876

*After receipt of State assistance. ‡ Loss. † Restated.

Of the relatively younger mines, increased net profits are reported by Blyvooruitzicht and Harmony; the latter has begun commissioning its new gold ore treatement plant which will lift capacity by about 20 per cent, but has decided to close one of its two uranium plants (Virginia) in view of the decline in the uranium market.

A small R7.2m South African gold mine is to be started by Vlakfontein Gold Mining, which ceased its own underground operations in 1977 and now treats surface dump material.

The new deposit lies at a relatively shallow depth of 300 metres and will provide a total 2.7m tonnes of ore containing an average 3.4 grammes gold per tonne over a working life of 11 years.

Generous deal from EIB reopens Ecu sector

BY CLARE PEARSON

TURNOVER IN the Eurobond market was low yesterday with the US Treasury market in New York closed for the Columbus Day holiday. Bank of Tokyo International reopened the Ecu sector with an Ecu 100m deal for the European Investment Bank, but otherwise new issue activity was muted.

The EIB's deal surprised the market, since European investor interest in the Ecu sector is very low, with many investors concerned about pressure on the sterling component of the currency.

The Bundesbank has so far failed to relieve this pressure by cutting West German interest rates, and so the yield differential between Euro-DM and Ecu Eurobonds has not yet widened out enough to tempt many investors back to the Ecu. In some cases, the yield differential is now two full points.

However, the terms of yesterday's deal for the EIB looked generous to Ecu bond dealers. The bond's coupon was set at 7¾ and price at 101. It has a seven-year final maturity, but 5 per cent can be retired during the first year through a purchase fund, 3 per cent during the second year, and 2 per cent in the third year.

Some dealers said that institutional investors were switching out of existing more expensive EIB and World Bank Ecu-denominated paper into the Bank of Tokyo's issue, gaining about a 20 basis point lift in yield. The bond was quoted at a bid price of 99¼, within 1⅞ per cent fees, during most of the day.

It was Bank of Tokyo International's first lead-management

INTERNATIONAL BONDS

in the Ecu sector, and some dealers were concerned that the deal would be placed in Japan, leaving no secondary market liquidity in Europe. But Bank of Tokyo said it had pre-placed only a modest amount in Japan, and nine co-managers, mainly European and North American houses, joined the issue.

In the Eurodollar market prices of fixed-rate bonds were unchanged or slightly easier in low turnover.

The floating-rate note (FRN) market also traded quietly although there was a flurry of selling of FRNs for US savings and loans institutions. This arose from a confusion between the names of a small US savings and loans institution which went into receivership over the weekend, and of a large institution which has issued in the Eurobond market.

Morgan Stanley issued a $200m undated deal for the Norwegian Christiania Bank og Kreditkasse. The deal pays ⅛ points over six-month Libor and is priced at par with 40 basis point total fees. Morgan Stanley said it met strong demand and traded comfortably within this discount.

In the D-Mark market prices fell by about ¼ points in thin trading. Late in the day Westdeutsche Landesbank issued a DM 125m 6¾ per cent bond for Imatran Voima, the Finnish state-owned electricity company. The deal, priced at 99¾, matures finally in 10 years but has an eight-year average life.

Trading in the Swiss franc market was also subdued, in the aftermath of the enthusiastic receptions given to new equity-linked issues last week. A 6¼ per cent convertible bond for American Eagle Petroleum closed its first day's trading at 98, while a bond with gold warrants for Echo Bay Mines closed for the first time at 104¼.

FRNs boost external funding

BY HAIG SIMONIAN

A TOTAL of $83.8bn was raised in medium and long-term funds in the international capital markets in the third quarter of 1986, according to preliminary figures from the Organisation for Economic Co-operation and Development.

Although some $300m lower than in the previous quarter, the July-September, 1986, total was $13.9bn above that for the same time last year.

A sharp rise in floating-rate note (FRN) issues pushed up borrowing on external bond markets last quarter by 67 per cent year-on-year to hit a new record of $63.7bn.

Buoyed by the UK's $4bn floating rate issue last month, FRNs totalled $23.2bn last quarter compared with $9.7bn in third quarter, 1985. By contrast, straight bond issues slowed noticeably, partly on account of investors' concern about interest rate prospects.

Dollar-denominated bonds amounted to $36.5bn (57 per cent of the total) last quarter against 53 per cent in second quarter 1986.

FT INTERNATIONAL BOND SERVICE

Listed are the 200 latest international bonds for which there is an adequate secondary market.

Closing prices on October 13

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amer. Express 7⅞ 93	100	†96¾	97¼	—	—	8.21
Amoco Co. 9¾ 16	200	104⅞	105⅜	−0⅛	−0¼	9.23
Australia Com. 11 95	200	114⅛	114⅝	−0⅛	−0⅜	8.56
Australia Com. 11¼ 00	100	114	114⅝	−0¼	−0⅜	9.36
BP Capital 9⅞ 94	100	104⅞	105⅜	+0⅛	0	8.16
British Telecom 7⅞ 96	250	99⅛	99⅝	—	—	7.72
Campbell Soup 10½ 95	100	111¾	112¼	0	+0⅛	8.52
Canada 9 96	1000	104⅞	105⅜	−0⅜	−0⅜	8.18
Canadian Pac. 10¾ 93	100	108¾	109¼	−0⅜	−0½	8.88
CEPME 10½ 91	100	108½	109	0	0	7.95
Citicorp 8¼ 93	200	97¾	98¼	—	—	8.64
Credit Lyonnais 9 91	200	104⅝	105⅛	−0¼	−0⅜	7.65
Credit National 9⅛ 93	150	105¼	105¾	−0½	−0½	7.97
Denmark Kingdom 7 89	500	99½	100	0	0	7.89
Denmark Kingdom 7¾ 93	250	98½	99	−0⅛	−0¼	7.99
Denmark Kingdom 8¾ 91	100	102⅛	102½	−0⅜	−0⅜	7.65
Deutsche Bank Fin. 8 98	110	97	97½	−0⅜	−0¼	8.37
EDC 8½ 92	100	103½	104	+0⅛	+0⅛	7.62
EEC 8¼ 96	100	100¾	101¼	−0¼	−0⅜	8.61
EEC 8⅞ 91	150	104⅞	105⅜	−0⅛	−0⅜	7.19
EEC 9⅝ 90	350	105¾	106¼	−0⅜	−0½	7.72
EIB 10¼ 94	200	110⅜	110⅞	−0⅜	−0⅛	8.38
EIB 12 95	200	123¼	123¾	−0⅜	−0¼	8.88
Eurofima 7¾ 91	100	100¾	101¼	−0½	−0½	7.48
Export Dev. Cpn. 10 90	100	108¾	109¼	0	0	7.08
Finland 7½ 93	200	97⅞	98⅜	−0¼	−0⅛	7.96
Ford Motor Cred. 10½ 91	150	109⅜	109⅞	+0⅛	+0⅛	8.10
Ford Motor Cred. 11⅞ 90	100	110⅛	110⅝	−0¼	−0⅛	7.70
Gen. Elec. Cred. 10¼ 00	200	107	107½	−0⅛	−0⅛	9.29
GMAC 10¼ 89	200	106⅞	107⅜	0	−0⅛	7.16
GMAC 8½ 93	200	101⅜	101⅞	−0⅛	−0⅛	8.16
IADB 9⅞ 95	200	108⅞	109⅜	−0⅜	−1	8.46
Liberty Mutual 8½ 96	150	99¾	100¼	−0⅛	−0¼	8.49
LTCB of Japan 8 91	100	101⅝	102⅛	−0⅛	−0⅛	7.51
Merrill Lynch 8¾ 91	100	103⅝	104⅛	+0⅛	+0⅛	7.79
Merceds.-Benz Cred. 7½ 93	100	99⅝	100⅛	+0⅛	+0⅛	7.52
Nth. Amer. Philips 8 93	100	96⅜	96⅞	—	—	8.69
Norway Kingdom 7¾ 91	500	99⅜	99⅞	−0¼	−0⅛	7.34
Pepsico Inc. 7⅞ 93	200	96¾	97¼	−0¼	−0⅛	7.96
Proct. & Gamb. 'A' 9⅞ 92	150	106⅜	106⅞	−0⅛	0	8.44
Qantas Airways 10⅜ 95	140	110⅝	111⅛	−0⅜	−0½	8.55
Queensland Govt. 10¼ 95	100	109¼	109¾	−0⅛	−0¼	9.60
Ralston Purina 11¾ 96	150	112⅞	113⅜	−0¼	−0⅛	9.42
Saab Scania 9½ 91	125	105½	106	−0⅛	−0⅜	7.87
Saskatchewan 10¾ 92	100	110½	111	+0⅛	−0⅛	8.18
Scandinavia Air. 10⅛ 95	150	109	109½	−0¼	−0½	8.62
State Bk. S. Aust. 9¼ 93	100	104⅛	104⅝	−0⅜	−0⅜	8.32
Statoil 10 90	170	108	108½	+0⅛	−0⅛	7.43
S. Wales Trsy. 11¾ 90	150	111¼	111¾	+0⅛	0	7.84
Swed. Exp. Cred. 10 92	100	110⅛	110⅝	−0⅛	−0¼	7.65
Sweden 8¾ 96	200	104	104½	−0⅛	−0½	8.08
Sweden 10¼ 92	250	111¼	111¾	−0⅛	−0⅜	7.78
Sweden Kingdom 10⅞ 90	200	111	111½	+0⅛	−0⅛	7.18
Sweden Kingdom 7 91	250	98⅛	98⅝	—	—	7.37
Toyota Motor Cred. 8 89	100	102⅞	103⅜	−0¼	−0½	6.73
Victorian Rep. 11⅝ 92	150	114⅛	114⅝	+0⅛	−0¼	8.27
World Bank 8½ 16	150	†92⅛	92⅝	−1	−1⅜	9.25
World Bank 9¾ 16	300	100¾	101¼	−0⅜	−1¼	9.14
World Bank 9⅞ 16	300	†105½	106	−0⅜	−0⅜	9.17
World Bank 10¼ 95	300	113¼	113⅜	−0⅜	−0½	7.94
Yasuda Trust Fin. 8½ 93	100	101⅜	101⅞	0	−0⅛	8.16

Average price changes on day −0⅛ on week −0⅜

DEUTSCHE MARK STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Asian Dev. Bank 8 94	200	108	108½	−0¼	0	6.63
Austrian Elec. Co. 6½ 95	150	100⅛	100⅝	—	+0⅛	6.42
BMW 5¾ 96	200	91¼	92¼	−0½	+0⅛	6.90
Daimler Benz Intl. 5¾ 01	500	93⅛	93⅝	−0⅛	−0⅛	6.46
Dow Chemical 5⅝ 96	300	93⅝	94⅛	−0⅛	−0⅛	6.50
Dow Chemical 6¼ 95	300	105	105½	+0⅛	+0¼	6.27
EIB 5½ 98	150	92½	93	−0¼	−0½	6.40
EIB 6¾ 95	300	102⅞	103⅜	—	−0⅜	6.44
EIB 7¾ 94	300	104¼	104¾	−0⅛	−0½	6.92
Emhart Corpn. 6¾ 95	175	101½	101⅝	−0⅛	−0⅛	6.54
Eurofima 6¾ 96	100	99⅝	100⅛	—	+0⅛	6.26
Ex.-Im. Bk. Korea 7⅞ 90	100	105¼	105¾	—	−0⅛	5.92
Finland Republic 7 92	200	104⅛	104⅝	−0⅛	−0⅛	5.97
Hoesch Intl. Fin. 7 95	100	102	102½	—	—	6.66
Hydro Quebec 5½ 96	125	92⅞	93⅜	−0⅛	—	6.40
Hydro Quebec 6 16	250	†91½	92	−0½	−0½	6.64
IBJ 5¾ 96	200	94⅛	94⅝	−0⅛	+0⅛	6.43
Ireland 8⅛ 92	150	107¼	107¾	−0⅛	−0⅛	6.47
I/S Elsam 6¾ 93	125	†100⅜	100⅞	—	+0⅛	6.57
Korea Dev. Bank 6⅝ 93	100	97¼	97¾	+0⅛	−0⅛	7.10
Mitsubishi M. 3⅛ 89 WW	100	189	189½	+0⅛	+6½	0.18
Mitsubishi M. 3⅛ 89 XW	100	†94	94½	−1⅛	—	5.12
Renfe 7⅜ 95	100	*†106¼	106¾	—	—	6.48
Soc. Cent. Nuclear 7¾ 95	150	†101¾	102¼	−0¼	—	6.93
Soc. Cent. Nuclear 8 91	100	†104⅝	104⅞	+0⅛	—	6.81
Stewag 5½ 96	100	*†92¼	92¾	—	+0⅛	6.61
World Bank 7 95	600	†103⅜	104¼	—	−0⅛	6.39
Yorkshire Intl. 6¼ 01	200	†*93¼	93¾	—	−0⅛	6.94

Average price changes on day −0⅛ on week +0

SWISS FRANC STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
African Dev. Bk. 5⅝ 96	100	10	0	—	—	818.4
Amer. Corp. 5¾ 01	200	†92	92¾	—	—	6.08
Baker Intl. 4⅛ 96	200	0	0	—	—	565.8
Carlsberg 5 96	80	†102½	102¾	—	—	4.66
Chujitsuya 5¼ 94	50	†102½	102¾	—	—	4.96
Deutsche Bk. Fin. 5½ 95	100	†106	106¼	0	+1	4.47
Gen. Occidentale 4½ 94	80	†124½	124¾	+1	+2	1.30
Glendale F. S. & L. 5½ 95	100	†101¼	101½	−0¼	+0⅛	5.30
Humana 5⅛ 98	120	†99	99¼	0	+0¼	5.23
Ireland 5⅛ 94	250	†100⅞	101	—	—	4.99
Japan Dev. Bk. 5⅛ 97	100	†104¼	104½	—	—	4.60
Oberos. Kftwk. 5⅜ 95	100	†103⅛	103⅜	0	0	4.90
Olivetti Intl. 5½ 95	100	†105	105¼	0	0	4.77
Pepsico 5¼ 95	230	†104⅛	104⅜	0	−0½	4.57
Phibro-Salomon 5⅛ 97	110	†104	104¼	+1	+1¼	4.64
Ralston Purina 5⅜ 94	125	†103	103¼	−0½	+0⅛	4.89
Settsu Euro. 0 01	100	†47	47¼	+1	+1	5.36
US Steel 5¼ 96	200	†94½	94¾	—	—	6.00
USX Corpn. 5⅜ 98	100	†96½	96¾	—	—	6.16
World Bank 5¾ 94	150	†105	105¼	+1½	+0½	4.97

Average price changes on day +0⅛ on week +0¼

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amer. Expr. OS Cr. 5⅜ 91	20	99⅛	99⅝	−0⅛	−0½	6.03
Denmark 6⅜ 96	10	101	101½	−0⅛	−0¼	6.19
GMAC 5⅞ 91	60	96⅛	96⅝	—	—	6.29
EIB 6⅜ 96	25	100½	101	−0½	−0⅛	6.01
Sweden Kingdom 5⅝ 95	20	96¼	97¼	—	—	6.07

Average price changes on day −0⅛ on week −0⅛

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amer. Ex. OS Cr. 0 91 A$	100	56¼	57	+0⅛	+0⅛	13.45
Bremer Ldsbk. 12¾ 91 A$	30	98	99	+0⅛	+0⅛	13.15
Fiat Finance 14½ 89 A$	50	100¾	101¼	+0⅛	+0⅛	13.99
GMAC 12¾ 89 A$	40	97⅞	98⅜	−0½	−0¼	13.81
Landsbk. Rheln. 13 89 A$	30	97¼	98¼	+0⅛	−0⅛	14.02
Canadian Pac. 10½ 90 C$	75	†101¾	102¼	−0⅛	−0⅜	9.74
Chrysler Corpn. 10 91 C$	75	†97½	98	−0½	−1	9.86
Genstar Fin. 11¼ 95 C$	75	*†104⅜	104⅞	0	−0½	10.92
GMAC 9¼ 92 C$	75	†98½	99	0	−0½	9.52
Royal Trustco 10⅞ 90 C$	75	†99⅜	99⅞	0	−0½	10.55
Sears Acp. 10⅝ 92 C$	75	*†102⅝	102⅞	[illegible]	[illegible]	10.07
Coca-Cola F. C. 17 90 N$	75	†105	106½	+0¼	−0¼	14.90
Denmark 17½ 89 N$	50	*†102¼	102¾	0	−0½	16.12
Unilever Cap. 17½ 89 N$	50	†104½	105	−0¼	0	15.13
Copenhagen City 9 95 Ecu	40	†102	102½	−0¼	−0⅜	8.63
EIB 8⅝ 93 Ecu	100	†104⅝	105⅛	−0½	−0⅜	7.62
Walt Disney 8¾ 94 Ecu	62	†103⅜	103⅞	−0½	−0⅜	8.38
Honda Mtr. WW 3⅞ 90 Fl	100	110	110½	−0½	+1	0.89
Honda Mtr. XW 3⅞ 90 Fl	100	93⅝	94⅛	0	−0⅜	5.89
Thyssen 7¼ 90 Fl	50	103¾	104¼	0	−0¼	5.91
Wereldhave 7½ 90 Fl	75	104¾	105¼	+0¼	+0⅛	5.98
Wessanen 6¾ 90 Fl	50	103⅝	104⅛	0	−0⅛	5.60
Amev 11 93 £	30	†99½	100	−0¼	+2⅝	11.05
Australia Com. 11 92 £	40	97½	98	−0⅜	+0⅛	11.54
GMAC UK Fin. 10½ 90 £	30	98⅝	99⅛	−0¼	+2¼	10.95
Imp. Chem. Inds. 10 03 £	100	91⅞	92⅜	−0⅜	+0½	11.04
Imp. Chm. Inds. 10¾ 92 £	75	†96	96½	0	0	11.65
Invst. in Inds. Int. 10 93 £	60	93	93½	−0⅛	+2⅛	11.53
Leeds Bldg. Soc. 10½ 91 £	50	95½	96⅛	−0⅛	+1¼	11.74
McDonalds 10⅞ 90 £	40	99	99½	0	+0¼	11.14
Nationwide BS 10⅛ 93 £	75	92½	93	−0⅛	+1⅜	11.75
NSW Treasury 10⅛ 92 £	50	95⅛	95⅝	+0⅛	+0⅛	11.70
Royal Insce. 10⅞ 92 £	60	†96⅞	97⅜	0	−0¼	11.49
J. Sainsbury 10⅞ 93 £	60	97⅛	97⅝	−0⅛	+1⅞	11.43
Trusthouse Forte 11⅛ 90 £	50	98¾	99¼	−0⅛	+0⅛	11.43
World Bank 11¼ 95 £	100	101½	102	0	+0⅛	10.90
CoE 8⅞ 95 LFr	600	†105¼	105¾	0	−0½	7.99
EIB 8⅝ 93 LFr	1000	†105	105½	0	−0¼	7.53

FLOATING RATE NOTES	Spread	Bid	Offer	C.dte	C.cpn
Alliance & Leic. Bldg. £ 94	0.08	99.33	99.40	18/10	10.08
Bank of Montreal 98	0.05	100.19	100.28	23/01	5¾
Barclays Bank Perp. 1	0⅛‡	100.81	100.91	2/01	7.06
Barclays Bank Perp. 2	0⅛‡	100.55	100.65	14/08	6¼
Belgium, Kingdom of 91	0	100.68	100.78	19/02	8.06
BNP 5¼ 95	0.05	†102.05	102.15	12/01	6.8
Britannia 5 93 £	0⅛	99.69	99.77	8/10	10.19
Chase Manhattan Corpn. 91	0⅛	99.71	99.81	20/08	6.12
Citicorp 98	0¼	99.45	99.55	29/08	7.19
Credit Lyonnais 5 00	0.1	100.74	100.84	12/01	6.81
EEC 3 92 DM	0	100.49	100.58	20/08	4.44
EEC 5¼ 93 Ecu	0.0312	99.80	99.90	30/07	7.64
Halifax Bldg. Soc. £ 94	0.1	99.57	99.63	6/08	10.54
Lloyds Bank Perp.	0⅛	100.83	100.93	9/12	7½
Midland Bank 01 £	0.1	99.59	99.69	7/11	10.6
Milk Mrktg. Board 5 93 £	0⅛	99.66	99.73	26/09	9.94
NatWest Perp. A	0⅛‡	100.84	100.94	9/01	6.94
NatWest Perp. B	0⅛‡	100.83	100.94	10/02	6¼
New Zealand 5 97 £	0.07	99.80	99.90	14/08	10¼
New Zealand 5 01	[illegible]	100.36	100.46	4/02	8.13
Prudential Corpn. 4 95 £	0.1	99.15	99.25	5/09	9.85
Royal Bk. Scotland 5 Prp.	0⅛	100.51	100.61	11/12	7⅛
United Kingdom 5 92	0	100.26	100.33	7/10	7.19
Woodside Financial 5¼ 97	0	100.27	100.37	20/10	6.81
Woolwich 5 95 £	0⅛	99.56	99.61	19/11	10½

Average price changes on day +0.05 on week +0.12

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
Ajinomoto 3 99	4/84	1653	252	254	−3¼	4.73
Fanuc 3¾ 98	1/84	7052	219¾	221¼	−3½	95.00
Fuji Bank 2½ 00	10/85	1672	155¾	157¼	−3½	0.53
Fuji Heavy Industries 3 00	8/85	675	114¼	115¼	—	0.57
Fujitsu 3 99	5/84	1320	134½	135½	−4¼	15.75
Minolta Camera 2¾ 94 DM	2/86	1105	†102¾	103¼	−1⅞	39.56
Mitsubishi Bank 2⅝ 00	8/85	1768	†148½	150	−1	0.26
Mitsubishi Trust 2½ 01	5/86	1600	140½	142	−1	−14.81
Mitsubishi Elec. 2¾ 00	3/85	422	†200	202	−7	−5.14
Mitsui Bank 2⅝ 01	4/86	101.9	123¾	125¼	+2¼	−90.86
Mitsui Trust 2¾ 01	10/86	1990	128¼	129⅞	+2¼	33.61
Murata 3½ 00	7/84	2398	173½	175	+0½	40.47
Nippon Elec. 2⅝ 00	1/85	1295	278	279¾	−10½	220.61
Nippon Oil Co. 3 00	3/85	923	195¾	230¼	+3¼	2.39
OKI Elec. Ind. 3½ 99	10/84	985	137¼	138¾	−0⅛	−1.27
Sanwa Bank 2⅝ 00	10/85	1486	144⅞	146⅜	−0⅛	1.45
Sumitomo Bank 2⅝ 00	8/85	2142	164⅝	166⅛	−0⅛	0.16
Taiyo Yuden 3¼ 00	3/85	1078	†146	148	+5	−4.65
Toshiba Ceramics 3 00	4/85	1734	122¼	123¾	+0¼	5.18
Nippon Oil Co. 2⅝ 92 SFr	3/84	1052	*†132½	132½	—	6.84
Nippon Shinpan 2 92 SFr	3/84	381	*†179½	179½	—	18.98
Asics 5 92 DM	12/83	320	†120½	121½	+3	11.36

* No information available—previous day's price.

† Only one market maker supplied a price.

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The prices over the past week were supplied by: Kredietbank NV; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Generale du Luxembourg SA; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Bank of Tokyo International; Chemical Bank International; Chase Manhattan; Citicorp International Bank; Daiwa Europe NV; Credit Commercial de France (Securities); EBC Amro Bank; LTCB International; Robert Fleming and Co.; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch Pierce Fenner and Smith; Morgan Stanley International; Nikko Securities Company (Europe); Nomura International; Orion Royal Bank; Samuel Montagu and Co.; Societe Generale Strauss Turnbull; Sumitomo Finance International; Swiss Bank Corporation International; S. G. Warburg and Co.; Wood Gundy.

Companies rush for Montreal listings

By Robert Gibbens in Montreal

THE MONTREAL Exchange is experiencing its largest-ever rush of new listings as Quebec-based companies hurry to go public before the provincial government tightens certain tax rules.

In Montreal's Big Bang, total new listings in 1986 will be about 190, against 70 last year. In all, between C$3bn and C$4bn will have been raised since 1983 through new issues by small- and medium-sized businesses and by special treasury-share issues by large companies.

The new equity funds have helped the province's economy recover from the 1982 recession, which left a trail of near bankruptcies throughout the manufacturing sector. They have also encouraged a new competitive attitude among Quebec-based companies, a willingness to export and to expand beyond the province's borders.

The key to the new issue is the Quebec stock savings plan tax shelter set up in 1982 by Mr Jacques Parizeau, a former Parti Quebecois (PQ) finance minister who is now a professor of public administration at the University of Montreal.

At first, Quebec taxpayers could deduct up to 150 per cent of the cost of buying qualifying new shares from their provincial income tax, subject to a ceiling and to holding the shares for two years. The Government also provided up to C$400,000 to Quebec companies to cover the legal and underwriting costs of going public.

It took some time for the system to become known, but by 1985 the PQ government found that the tax shelter was costing the provincial Treasury several hundred million dollars a year when it was struggling mightily to keep the budget deficit to C$3bn.

The last PQ budget in the spring of 1985 cut the benefits for investors to a maximum deduction of 100 per cent. When the Bourassa liberals took over last December, they immediately cut out the subsidy for going public.

The Finance Ministry has warned that a further tightening can be expected for the 1987 tax year—helping to fuel a rush by lawyers and underwriters to get new issues filed with the Quebec Securities Commission by the 1986 deadline last weekend. At the same time, criticism is growing that some new issues are excessively risky or were pitched as high as 20 times earnings to catch the stock market peak in September. A collapse in stock prices would prove a big bang of the wrong kind for thousands of new investors in Quebec.

Other provinces such as Ontario, Alberta and British Columbia are now planning similar programmes to encourage small- and medium-sized businesses to expand on a sound equity base.

The 1986 roster of new listings will bring the Montreal Exchange's total listings to well over 700 or about half the Toronto Stock Exchange's.

Fewer Swiss domestic bonds

By John Wicks in Zurich

NEW ISSUE activity on Switzerland's domestic bond market is likely to show a marked drop in the next two months. According to the Cantonal Bank of Berne, the issue calendar for the November/December period shows only seven borrowings with a total sum of SFr 680m.

This compares to 21 issues worth over SFr 1.62bn in September and October.

The biggest single borrower in the new calendar is the Federal Government, with a planned tender bond flotation of some SFr 250m next month. However, the confederation called off its two previous issues—of SFr 300m in June and SFr 250m in September — because it had not needed the money and was observing which direction the market would take.

The remaining SFr 430m in the November and December programme is accounted for entirely by banks and includes SFr 410m of new money and SFr 20m of refinancing.

Exco Capital Markets

By Peter Montagnon, Euromarkets Correspondent

EXCO INTERNATIONAL, the UK financial services group, has formed a new subsidiary, Exco Capital Markets, to service as a broker in off-balance sheet banking items such as interest rate and cross-currency swaps.

The company said that it also intended to develop the more recently developed markets in interest rate caps, floors and collars.

Congress to the rescue of S & Ls

BY NANCY DUNNE IN WASHINGTON

IN THE FLOOD of legislation pouring through Congress before its scheduled recess are measures which would delay the day of reckoning for two of the US's growing debt problems.

Two separate bills are up for approval recapitalising the near-bust Federal Savings and Loan Insurance Corporation (FSLIC), the insurer of the deposits of US savings and loan institutions (S & Ls or thrifts), and the Farm Credit System (FSC), which is sinking under the weight of the farm crisis.

The FSLIC measure is designed to raise $12bn to $15bn over a long-term basis so that the agency can afford to close down or sell almost 130 sick savings and loan institutions with assets totalling $47.6bn.

The "rescue" plan would set up an organisation to use the retained earnings of the 12 regional federal home loan banks as a base for borrowing in the capital markets. The funds would then be passed to the FSLIC to shut down insolvent thrifts and pay off their depositors.

The scheme costs US taxpayers nothing and for that reason it is particularly desirable in an election year. Failure to pass the legislation, warned Congressman Fernand St Germain, chairman of the House Banking Committee, "invites chaos among the nation's system of depository institutions, a loss of confidence across a wide spectrum of the American public, and potentially heavy drains on federal insurance funds."

It is by no means certain that the legislation will emerge from a House-Senate conference committee, because the House has attached a provision to fund housing programmes, which is not in the Senate bill. Mr St Germain has threatened to kill the bill unless the Senate agrees to the housing measure.

Nearly insolvent

Even if the bill passes, many economists claim it offers no more than first aid and that a Treasury bail-out is necessary. According to Mr Bert Ely, a Washington area financial consultant, more than one-third of the nation's 3,200 thrifts are nearly insolvent, partly because many are obliged to pay above market interest rates to attract deposits.

A study by the Federal Home Loan Bank Board, the industry's regulator, concluded that the above normal rates offered by ailing thrifts last year added between $5bn and $4b to the expenses of the healthy S&L's, which were forced to raise their own rates to compete.

Figured "conservatively," says Mr Ely, it will cost $29bn to rescue the industry, and the longer the delay, the greater the cost will be.

The FCS measure is actually an amendment to legislation passed in 1985, which also sought to put off a Treasury rescue. Last year's hastily-passed legislation required the co-operative farm credit system of borrower-owned banks to pool its assets in order to shore up the weaker lenders. Under the measure, the Treasury would not come to the system's aid unless its assets were totally exhausted.

The Administration apparently did not expect the resulting onslaught of lawsuits filed by the prospering lenders in the system, whose stockholders are not prepared to go down with the ship. The lawsuits produced restraining orders, and the Farm Credit System Capital Corporation has been forced to postpone pooling action.

FSC officials say losses in the first half of the year totalled $1bn, and they expect to lose about $800m more by the year's end. By their reckoning, assets have dwindled to $3.2bn in earned surpluses, $3.2bn set aside in loss reserves and 3.6bn in B stock held by farmer-borrowers. They acknowledge, however, that no one is sure how much of the B stock has actually been paid for, since special deals were agreed with many of the borrowers, who are required to purchase shares.

The House-passed legislation allows the Farm Credit System to reschedule some of its existing debt load over a 20-year period through what is called "a creative financing programme." Less costly funds at current rates could then be made available to borrowers. A third party, unspecified by the legislation, but perhaps a new corporation inside the system would pay off bondholders in full.

Federal money

The legislation would allow the system to improve its position on paper, but according to a recent report by the General Accounting Office (GAO), Congress ought to start planning to pump federal money into the FSC perhaps by early next year.

The GAO predicted a loss this year of $2.9bn and called it "inevitable" that the system's losses will wipe out its capital and force the Treasury to provide an infusion of funds.

"It is a horse race," says Mr Ely, "between the FSC and the FSLIC as to who gets to the Treasury first."

Chase tops foreign-owned UK bank league

BY DAVID LASCELLES, BANKING CORRESPONDENT

CHASE MANHATTAN LTD, the London merchant banking subsidiary of Chase Manhattan Bank, has emerged as the most profitable of foreign-owned and consortium banks in the UK.

In the latest ranking of these banks by IBCA, the London-based banking analysis group, on the basis of the returns they earn on their assets, Chase Manhattan Ltd showed a return of 3.25 per cent last year. This is substantially higher than the Hungarian International Bank which has dominated the foreign banking profitability league in past years.

The subsidiaries of two other US money centre banks make the IBCA top 10. They are Manufacturers Hanover Ltd, which comes third, and Citicorp Investment Bank placed eighth. The other banks represent a wide cross-section of the international banking community.

IBCA cautions that tax planning and other corporate objectives often override profitability goals in the case of banks with a single owner. "Consequently," it says, "these banks' published figures are not a fair indication of their performance." But IBCA says that the reports of consortium banks with several owners "do mean something."

The survey covers 45 banks, including the 22 members of the Association of British Consortium Banks.

The most significant factor affecting results, IBCA says, was the strength of sterling against the dollar in 1985, which has resulted in many banks posting declines in assets in sterling terms. Profits were also squeezed by finer lending margins. But many banks showed improvement in their capital ratios.

FOREIGN-OWNED BANKS IN THE UK

	Net income av. assets %	Net income £m	Assets* £m
Chase Manhattan	3.25	19.7	662
Hungarian International	2.07	4.2	211
Manufacturers Hanover	1.85	8.2	345
Bank of Cyprus (London)	1.76	1.2	73
Carolina Bank	1.51	1.9	131
Allied Arab	1.31	4	320
Havana International	0.97	0.8	87
Citicorp Investment	0.96	17.4	1,964
Libra Bank	0.80	17.1	1,967
Banco Exterior-UK	0.77	1.5	204

* Less contras. Figures are for latest available financial year. Source: IBCA

INTL. COMPANIES and FINANCE

SAAB to maintain profits despite decline in dollar

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT, IN BIRMINGHAM

SAAB, the Swedish car company, should be able to match last year's net earnings of SKr 750m ($110m) in spite of the sharp fall in the value of the US dollar, said Mr Sten Wennlo, executive vice president of the Saab-Scania group and general manager of the car division.

The US is Saab's biggest individual market, accounting for 36 per cent of total unit sales last year, and Mr Wennlo pointed out that a SKr 1 fall in the value of the dollar costs his company SKr 750m of earnings.

Apart from increasing unit sales in the US this year, to an expected 45,000 against 38,200 in 1985, Saab has been able to compensate for some of the fall – from nearly SKr 10 to the dollar to SKr 7 – by the improving the mixture of cars sold in the US, with the higher-value Saab 9000 models taking a much greater share of sales.

The company is consolidating its dealer network in the US and wants to reduce the number from the current 350 to around 300 over the next three to five years.

Mr Wennlo expects Saab's worldwide sales this year to reach about 125,000 cars, with the 9000 models accounting for 15 per cent.

Production next year should reach 137,000 and sales 135,000 as the company restocks again. US sales are forecast to reach 52,000 cars.

Mr Wennlo warned, however, that a threatened strike in Sweden this week, which could close three car factories, would have an impact on earnings.

At the moment Saab's output cannot keep pace with demand, he said. Every one of the wholly owned European import companies were "making good money" and output would be increased only enough to keep pace with or be a little behind demand.

SKr 300m rights issue for Iggesund

By Kevin Done in Stockholm

IGGESUND, the Swedish forest products company, is to raise SKr 300m ($44m) in new equity capital through a one for four rights issue.

The group, which chiefly produces board for the European food, tobacco and packaging industry, has embarked on an ambitious SKr 1bn investment programme to modernise and expand its pulp and board production. This will also involve the loss of 300 jobs over the next five years.

Iggesund is 49.8 per cent owned by Modo, Sweden's third largest forest products group and a leading producer of fine paper. In the last year it has itself built up a 14.5 per cent stake in Holmen, another Swedish pulp and paper group and one of Europe's leading newsprint producers.

In the first eight months of 1986 Iggesund increased its profits (after financial items) by 35 per cent to SKr 181m from SKr 134m in the corresponding period a year earlier.

In addition, the group has made extraordinary profits of SKr 477m chiefly from the SKr 630m sale of Eka, its chemicals subsidiary, at the beginning of the year to Nobel Industries, the Swedish chemicals and armaments group.

Iggesund's sales in the first eight months totalled SKr 1.8bn compared with SKr 1.89bn a year earlier. Excluding the Eka chemicals operations, however, sales on a comparable basis rose by 14 per cent.

During the first eight months Iggesund enjoyed strong demand for board, with high prices and favourable exchange rate movements.

New orders have begun to weaken, however.

Building materials lift Euroc earnings 5%

BY SARA WEBB IN STOCKHOLM

EUROC, the Swedish building materials, engineering and trading group, reported a 5.4 per cent increase in operating earnings to SKr 175m ($25.5m) for the first eight months, compared with SKr 166m in the corresponding period last year.

Sales increased 11.7 per cent to SKr 3.79bn, against SKr 3.39bn.

The group predicts a full year profit of about SKr 300m, on a par with last year's figure of SKr 302m.

Dynapac, the construction machinery division, suffered from weaker demand from several markets and showed a loss.

Siporex, which makes building materials, improved its results, especially in its French operations.

Euroc and Norcem, the Norwegian industrial concern, started their joint venture cement and coal company, Scancem, in September, with planned sales of about SKr 1.5bn.

Incentive sees small rise at eight months

By Our Stockholm Correspondent

INCENTIVE, a Swedish conglomerate dominated by the Wallenberg and Lundberg financial interests, reported a 4.3 per cent increase in profits for the first eight months.

The group expects profits for the full year to improve on last year's figures of SKr 273m ($40m).

Profits before provisions and tax were SKr 122m against SKr 117m in the first eight months of 1985.

Sales stagnated at SKr 4.371bn, compared with SKr 4.388bn in the corresponding period last year.

Incentive recently agreed to sell its majority stake in LKB, the instruments and chemicals company, to the pharmaceuticals and biotechnology group Pharmacia for SKr 775.8m. The group will make a capital gain of SKr 575m.

Kone cites weakened market for downturn

BY SARA WEBB IN STOCKHOLM

KONE, the Finnish lift and materials handling group, suffered a sharp downturn for the first eight months, with profits after tax but before allocations down by 48 per cent to FM 31.5m ($6.5m). Sales increased by 3 per cent to FM 3.15bn compared with the same period last year.

Kone cites the weakened market for heavy cranes, marine technology equipment and instruments. The result for 1986 as a whole is also expected to be below that for 1985, when Kone recorded a profit before allocations of FM 109m.

The lift division, which accounts for 57 per cent of total sales, was the best performer. Sales increased by 6 per cent while new orders rose 31 per cent to FM 1.43m during the first eight months.

TECHNOLOGY

John Griffiths looks at how Mercedes has stolen a technological march on its rivals

Soft option delivers efficiency

"THE vehicle manufacturers simply have to involve themselves with all aspects of a transport operator's business—and it is an area where, for Mercedes-Benz, there is no substitute for keeping ahead of the game."

This is how Colin Burton, manager of the transport consultancy operated by Mercedes-Benz (UK) — it has counterparts throughout Europe — explains the rationale behind a new software package for truck operators that Mercedes is to demonstrate, along with its EPS-equipped (see article below) "Powerliner" trucks at this week's motor show in Birmingham.

Called MB-Tour, the software is one of eight packages developed, or being developed, by or on behalf of the world's largest truck manufacturer, and is intended for use, free or at token cost, by truck operators.

In marketing terms, these packages are also intended to demonstrate what a worthy company Mercedes is for not simply selling trucks and replacement parts.

By using the MB-Tour software, operators can schedule deliveries and/or collections in a highly efficient manner.

The operator keys in delivery locations, load composition and other parameters such as road access bans on large vehicles, parking restrictions, driver availability or specialised vehicle needs.

Routes are then scheduled in the most time—and mileage—efficient manner, using the best vehicle/driver combinations. The system can produce route schedules for 300 deliveries in a total of 25 seconds.

The software also has an opportunist element. It can, for example, spot openings for short-haul vehicles to make extra journeys within the working day, and still provides for manual override of the pre-programmed schedules should the need arise.

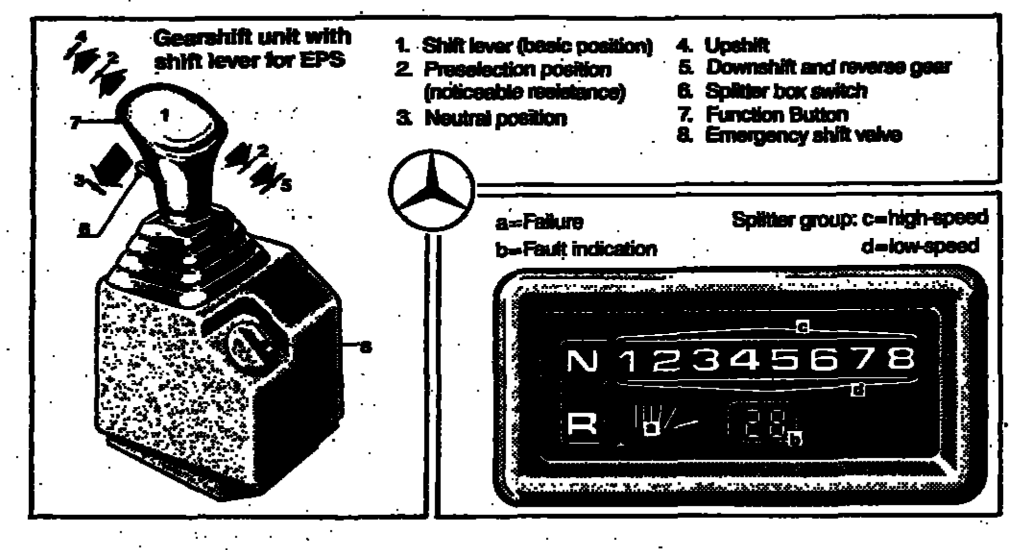
During one pilot operation, deliveries which previously had taken 33 vehicle journeys were rescheduled into 25, and the ned for one vehicle in 15 eliminated "at a stroke," according to Mercedes. In addition, the system allows delivery cost figures for individual vehicles to be extracted.

Mercedes has spent about DM 1m ($0.5m) on the software packages so far, with the final total likely to be around DM 3m.

The other packages being developed include workshop analysis, personnel records, in-cab communications with the operators headquarters and direct invoicing of the customer from cab-mounted terminals in the truck.

Mercedes intends these packages to be "widely available" from next year.

Electronic helping hand for a slicker gear change



THE heavy truck gearshift lever, symbol par excellence of the maccho lorry driver muscling his way through 16 gears, has become a thing of the past with the introduction of Mercedes top, 38-tonne "Powerliner" tractor range.

In its place is a far smaller gear selector, resembling nothing so much as a home computer games joystick with a pair of "fire" switches.

It is still attached to a conventional gearbox: ZS 16-speed Ecosplit unit. But the driver no longer has to apply, himself, the effort needed to overcome the physical resistance offered by the mechanical workings of the gearbox. The new joystick does the work for him by means of compressed air cylinders fed via electronically-controlled solenoid valves.

The "EPS" gear lever (it stands for Electro-Pneumatic Gear-shift system) in some respects resembles the pre-selector gearboxes of early post-war cars. The lever is moved first to the desired position, but the change does not take place until the clutch is depressed and released.

Where the system begins to be substantially better than predecessors is in the provision of sensors which detect prop-shaft speed and prevent any accidental over-revving of the engine through incorrect gear selection.

It will not allow a change to take place until speed and gear are synchronised, thus preventing a driver from stranding himself in neutral through miscalculation—especially in tricky situations like climbing steep gradients while heavily laden. (If the driver has really made a nonsense of things, and tried to pre-select a totally inappropriate gear the system will let him know).

The driver is informed which gear he is in by an electronic display immediately above the steering column. The display also indicates whether the transmission is in high or low range during use of the "splitter" function of the gearbox, which effectively doubles the basic eight ratios to 16. The splitter is controlled by a small rocker switch at the front of the gear lever.

The gear lever itself does not move physically through a gate of gears. It returns automatically to a central position after each gear change.

Where the system really becomes "smart" is if a "function" button, just above the splitter switch, is kept depressed while the main gear lever is moved. This allows up to three gears to be skipped in arriving at the desired gear.

But the most advanced feature of the system is the ability of the driver to allow the system itself to select the most appropriate gear in transitory, potentially confusing situations. If, for example, the truck is approaching traffic lights at red, the driver will be in a progression of change-downs. Should the lights change unexpectedly to green, the driver can simply move the gear lever left into neutral, then push it forward and operate the clutch. The systems sensors will determine which gear is best for the unexpected acceleration, and select the gear itself.

Mercedes-Benz (UK), which in September for the first time outsold Leyland Trucks to take second place in the UK heavy truck market (behind Iveco Ford), acknowledges that there might be some vestigial hostility to the system by drivers wishing to keep their he-man image. However, says managing director Mr Hans Tauscher, "this cowboy image really belongs to the past. Truck operators and their employees are much more professional nowadays."

$10m sales success for Marconi's space-age chips

By Geoffrey Charlish

SINCE APRIL, GEC's Marconi Electronic Devices (MEDL) of Lincoln, UK, has supplied or won orders for some $10m of silicon-on-sapphire (SOS) chips. The orders have come from European Space Organisation companies and US companies that supply Nasa. In Europe, Dornier, Saab, Matra-Harris, Selenia and Thomson Espace are involved. In the US, Lockheed, Motorola and General Dynamics are users.

The main advantage of the chips is that, unlike normal silicon-based devices, they are not subject to upset from cosmic radiation in outer space. They can also be faster and consume less power than alternative chips.

MEDL has just set up a US subsidiary in Farmingdale, Long Island: it expects growing business in America, where the only serious SOS competitor is RCA. MEDL has spent £25m in the UK this year on new production facilities.

Big savings from plug-in light control

LIGHTING CONTROL without additional wiring, in which control signals from a programmer are sent over the mains cables feeding the lamps, is offered in a system called Optima offered by Steq of Corby, UK.

A time-control transmitter simply plugs into any three-pin socket and sends a pre-programmed series of coded "on" and "off" commands over the building's wiring. The signals are identified by the appropriate receivers and switches connected in line with the lamps or zones of several lamps. Also available is a local override transmitter which plugs into an appropriate socket.

The company claims that properly installed, Optima can provide savings of over 50 per cent on lighting bills. More on 0536 69041.

Keeping an eye on persuasive language of moving pictures

FILM AND VIDEO

by John Chittock

EVER since an American filmmaker, Edwin S. Porter, discovered in 1902 that he could construct the dramatic story of a fire by joining different shots together — existing footage of a real fire with new scenes staged by actors — the technique of film editing has changed the moving picture from a medium of reality to one of manipulation. Television continues the tradition, despite its apparent veracity. The processes involved are at times subtle, even unconscious, but the recent season of political party conferences in Britain — and controversy over the BBC's army drama *The Monocled Mutineer* — has made the moving image a topical subject again for those who fear hidden persuaders.

At the Labour Party conference this year, at least one seasoned political observer noticed how the podium arrangements had been designed to provide better visual impact for television coverage — a plain background replacing last year's striped one, a movable screen behind the speaker rostrum to obscure background movement, and softer colours to humanise the whole effect. A video recording of Labour leader Neil Kinnock's speech was also produced by Oscar winning director Hugh Hudson — with videocassette copies on sale the next day.

Although the media advisers for politicians, businessmen and advertisers are now highly professional people, skilled in the art of image projection, most of their guidance is at a practical level — based largely on intuition or experience. There is, however, a more profound and academic level of analysis possible, relating to many theoretical concepts about the language of moving pictures.

Some of these concepts relate to the cinematic ideas expressed in semiology — revered by film buffs as the study of meaning and relevance in the way moving pictures are assembled. These ideas go back to the great Russian film-makers of the 1920s, such as Sergei Eisenstein — whose theories of "intellectual montage" caused him to postulate that film could direct not only the emotions, but also thought processes.

These principles are in part concerned with the juxtaposition of shots and their apparent effect on each other and the whole. For the television producer at an annual political conference, the practical significance may seem obscure but it is well exemplified in research carried out in the late 1970s at Liverpool University.

The results are documented by one of the researchers, Dr Jon Baggaley, in his book *Psychology of the TV Image* (Gower). In one of many experiments, Baggaley took identical shots of a speaker and intercut them with both negative and positive audience reaction shots. The latter compilation received (hardly surprisingly) a more favourable assessment by the audience group—but. no less important, the sequence with the negative reaction shots was also perceived by viewers as making the speaker seem "more confusing, more shallow and less expert." If the new Chairman of the BBC, Mr Marmaduke Hussey, grasps the nettle of alleged political bias, perhaps he should keep such subtleties in mind.

There is of course an intuitive recognition of such effects, and many producers—for good or for bad—make automatic use of them as a normal part of the creative process. Film editors know that if a scene is cut in the middle of an action, rather than when it has come to a natural rest, it can create disturbance; held too long and it bores; if the cutting rate is progressively increased it will build up excitement; or cut to a regular beat it may enhance anticipation (as in the end sequence of the classic Western, *High Noon*).

Baggaley's work has been less exotic but the implications are no less significant. Another of his experiments suggested that a TV lecturer seen with notes visible in the frame was regarded by viewers as "less fair and more confusing" than the same lecturer giving the identical performance with the notes out of picture. Such findings might seem a revelation to political speakers, yet it may be no accident that conservatives—at their annual conferences—use concealed television prompting monitors.

It is unlikely that such esoteric ideas as the grammar and semiology of moving pictures come into their planning. The principal preoccupation of politicians when becoming involved in television production has been with personal performance. For many years, so-called TV familiarisation training has been a feature of political life. For businessmen ever likely to appear on television this has become as obligatory as knowing how to read a balance sheet. But one of the best books on the subject *You're on Next!* (Michael Bland, Kogan Page), contains a cynical attack on the practice — delivered by TV producer John Swinfield, whose advice is simply to be as honest as possible in front of the cameras and then "you really should have little to fear . . ."

This may be a little difficult for some politicians to follow, but even when there is nothing to hide, the fragmented and selective nature of television renders it a manipulation of reality. This is even true of live television, where the producer—with a number of cameras at his command—can govern how the viewer sees the subject: an eyeline slightly above the interviewer may have a diminishing effect—a zoom in to close-up, timed to occur as a significant question is asked, may infer that the answer is more meaningful than it really is.

The spontaneity of television production nevertheless has discouraged development in the ideas of moving picture grammar—unlike the construction of a film which can occur at a leisurely pace, finding synergy in the assembly of images like the writing of poetry. It is no coincidence that nearly all TV commercials are shot on film and that video, as a medium, has become a somewhat functional means of communication. For politicians and businessmen perhaps a rediscovery of the language of film is long overdue: it is a language that can serve good as well as bad intentions.

UK COMPANY NEWS

£270m price tag for Avis Europe

BY TERRY POVEY

Avis Europe, the European, North African and Middle Eastern region of the international car hire company, will be valued at £270m in an offer for sale opening on October 30, only three days after Big Bang.

In the year to February 1987, pre-tax profits of £33m are forecast on sales revenues totalling £225m according to the pathfinder prospectus published yesterday.

Some 65 per cent of the US-owned company is due to be sold by its ultimate parent, Wesray Capital Corporation, a New York investment group.

Over the five years to 1986, Avis Europe's sales revenues increased by 55 per cent while profits before taxes rose by 83 per cent.

During these five years Avis Europe was part of Avis Inc which was in turn owned by several different conglomerates and 85 per cent of after tax profits were taken up in dividends by these various parents.

Apart from a reduction of debt, no details have been given in the pathfinder of the way the proceeds of the sale will be used. The pricing of the offer will not be made known until October 23 when the complete prospectus is published.

Mr Alun Cathcart, Avis Europe's managing director, has made it clear, however, that only a small amount will remain with the floated company.

Out of this a £15m royalty payment for the exclusive right to use the Avis name and trade mark for the next 50 years will also have to be paid. This agreement falls if a competitor of Avis's purchases a stake in excess of 35 per cent in Avis Europe.

Avis Europe claims leadership of the car rental trade in Europe as a whole and 80 per cent of its sales are in France, Germany, Spain and the UK — with the UK on its own accounting for about one fifth of the total.

Although leasing and fleet management contributes in only a minor way to revenues, the company says that this is because most of these transactions are carried out through associates rather than subsidiaries and that the profit contribution is higher than that of the sales.

The board of the floated company is to have six members. The three non-executive members will be Sir John Brembridge, formerly Financial Secretary in Hong Kong, as chairman; Mr Frank Richardson who will represent Wesray's residual interest; and Mr Joseph Vittoria who will represent that of Avis Inc. Mr Cathcart, Mr James Morley, group finance director, and Mr William Dix, group marketing director, will be the three executive members of the board.

The offer for sale is being sponsored and underwritten by Morgan Grenfell. Brokers to the issue are Morgan Grenfell Securities and Cazenove.

FIVE-YEAR PROFITS RECORD

	1982 (£m)	1983 (£m)	1984 (£m)	1985 (£m)	1986 (£m)	1987 (£m)
Revenue	127	142	154	175	197	*225
Rental	119	133	147	169	188	n.a.
Leasing	8	9	7	7	9	n.a.
Operating profit	18.9	23.1	21.4	26.4	29.8	n.a.
Associates	1.2	2.1	3.0	3.4	4.2	n.a.
Pre-tax	13.9	17.4	16.7	22.3	25.5	*33.0
Dividends	5.3	10.1	9.0	18.8	5.5	n.a.

Year-end February.
* Forecast.

Source: Avis Europe.

Farnell profits growth declines

Farnell Electronics suffered a continuance of difficult trading conditions during the opening six months of 1986-87 and for the period experienced a further deterioration in profits growth.

Including one month's figures from Astronic GmbH, a first-time contribution from Eurotec Optical Fibres and other income which rose by £1m to £1.8m group profits for the half year to July 31 showed an improvement of 6.5 per cent at £10.09m pre-tax.

That compared with an increase of 8.3 per cent for the first half of 1985-86, and with an advance of 25.4 per cent 12 months prior to that.

The directors pointed out yesterday that the difficult conditions were expected and that the reported profits were in line with their expectations.

They are lifting the interim dividend by 0.3p to 1.3p net from earnings of 5p, against a previous 4.4p.

Group turnover for the half year to July 31 1986 improved from £41.97m to £45.41m.

● comment

Farnell's share price has been underperforming the market index for 2½ years now and yesterday's figures are not likely to see it changing tack. The manufacturing division remains in its well-documented trough and the distribution side, though seeing a 10-12 per cent increase in volume, suffered further sharp price reductions; consequently it was left to tiny contributions from the two new acquisitions and an extra £1m in interest received to take the pre-tax figure forward. The picture looks similar for the full year, with a second-half contribution of perhaps £500,000 from Astronic compensating for lower interest receivable. About £23m seems likely, producing a prospective multiple of just under 14 after a 36 per cent tax charge. Farnell is well placed to take advantage of an upturn in its markets but there have been too many false dawns for the City to be optimistic of one coming soon, so the rating with the shares at 163p looks high enough for now.

Paul Cheeseright looks at Burton's innovative financing plan

Scheme may start a chain reaction

OWNERS of High Street property up and down the country will soon be examining in detail the technique adopted by the Burton Group to liberate funds and clean up its balance sheet.

Details are now emerging of an innovative financing scheme which has the effect of providing both £70m and allowing Burton free control of its properties. At Burton it is assumed that other chains will follow suit.

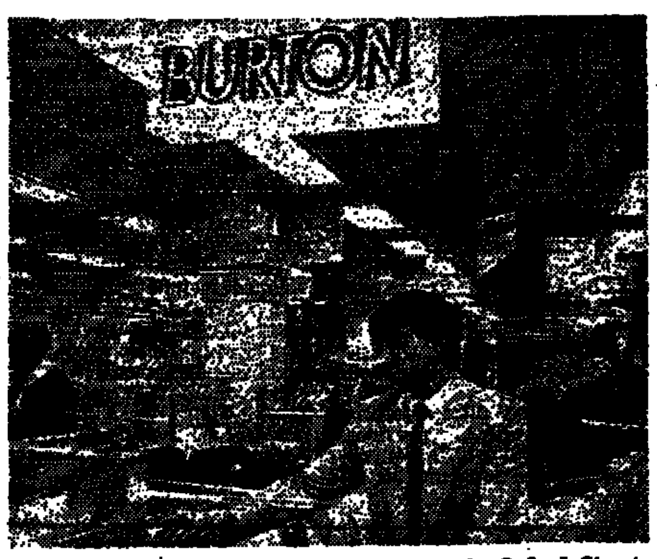
Certainly the market was sufficiently impressed and yesterday the Burton shares rose 12p to 278p.

The scheme is the latest in a line of developments designed to scale down Burton's gearing, put at 70 per cent at the end of the financial year, in August 1985, when Burton was absorbing Debenhams after a £560m takeover battle.

The clothing and stores group is teaming up with banks pulled together into a consortium by ANZ Merchant Banking. The banks are Barclays, with Barclays de Zoete Wedd, Samual Montagu and National Westminster.

A new company is being established, 50 per cent-owned by Burton and 50 per cent by the banks. Into that company goes £30m from Burton and £70m from the banks.

Injected into the company is the Harvey Nichols property on London's fashionable Knightsbridge and part of the Debenham acquisition, and a number of other but unnamed properties accounting for some 20 per cent of Burton's property holdings.



The Burton area inside Debenhams store in Oxford Street

Including the properties brought into the group by Debenhams, Burton trades in 1,472 properties, valued in the latest annual report at £532m.

Burton can put into the new company any property it likes and withdraw any property it likes. It can re-develop a property if it chooses, or leave it. But if it decides to re-develop and there is a profit, then it keeps 99 per cent of it.

The new, jointly-owned company will gain its revenue from the properties moving in and out of it and from the rent Burton will pay on a property it has transferred.

Out of this revenue the banks will receive the interest on the £70m loan they are putting up—interest that evidently gives them a very low margin.

At no stage though does Burton lose the freehold of the properties. Nor is it liable if the new company for some reason should fail. It has obtained non-recourse finance which frees the group from liability for the funds put up by the banks.

So Burton is keeping its properties but clearing some of them off the balance sheet. The new company will not be consolidated.

All of this suits Burton very well. It would have been possible to have raised mortgage finance on its string of properties but that would have involved heavy charges on the transactions, not least from stamp duty. It would have been possible to have engaged in sale and leaseback arrangement, but that would have deprived the group of the advantage of capital appreciation on the properties in question.

Future sale and leaseback arrangements have not been completely ruled out, but would be confined to properties where the chance of capital appreciation is limited.

At the same time, Burton has pulled off a deal which rules out any need for a rights issue, a course the group had in any case publicly set itself against.

Executives were noting yesterday that £70m of debts had been cleared off the balance sheet and, said Mr Michael Wood, Burton finance director, "we need the balance sheet in reasonable shape for the development of Debenhams."

And this has been the quest for the last year. At the year end in August 1985 debt was running at £336m.

Of that total there was £181m in overdrafts and over £66m hanging over from charges on the purchase of Debenhams. Burton had also taken over £51.4m in debentures, arising from the Debenhams deal, and there was £36.5m in bank loans falling due after a year.

"The first thing was to get the figure down," noted Mr Wood. "So we set about realising assets."

Out went Hamleys, the toy shop people, to Harris Queensway, the carpet and furniture retailer, for £30m, and out went Lotus, the shoemaker to FII, the South Wales footwear manufacturer, for £18m.

"The next on the list was property," said Mr Wood. The first move was last May when Burton set up a £40m sale and leaseback deal with Stargas Nominees, acting for the British Gas Pension Fund.

The second step has been the establishment of the new company with the banks. "We want to realise cash in property," as Mr Wood put it, which is precisely what other retailing chains would like to do as well.

Gearing has now been cut back by a half and the target of bringing debt down towards close to £100m looks in sight of being realised.

And, in the view of Burton, what the banks have in return for helping this process are loans on good security.

Kingsley & Forester expansion

BY MIKE SMITH

Kingsley & Forester, the toys and textiles group, increased pre-tax profits in the first half of 1986 by 12.6 per cent to £861,000.

The group achieved a 30 per cent rise in sales in the normally quiet first quarter, and ended the first half showing a 17 per cent turnover increase, to £22.86m.

Mr Arnold Forester, chairman, said the group was trading well in the second half and should show satisfactory progress for the full year.

"Having consolidated its past acquisitions, the group is poised for growth both organically and by acquisition."

The main business of the group is as an importer, manufacturer and wholesaler of household textiles. The company is also improving the customer base and the quality of products in its toys, houseware divisions and clothes, which it imports and wholesales.

Last year Kingsley agreed to set up a joint venture to distribute the products of Blue Box Toys of Hong Kong.

Mr Forester said yesterday the venture had made a loss in the first half because of start-up costs and limited sales. "However, the third quarter has produced a turnover of almost £1m an Blue Box should achieve a satisfactory profit in the first year," he stated.

In the first half the group's operating profit rose 9.6 per cent to £1.16m and interest payments were up from £301,000 to £309,000.

After taxation of £299,000 (£287,000) and minorities of £43,000 (£53,000) earnings per share were 2.53p (2.16p).

The dividend was unchanged at 1p per share.

● comment

Although Kingsley shares rose 2p yesterday to 69.5p, a substantial re-rating will require more evidence than these figures, showing a pre-tax profits rise of 12.6 per cent, are able to provide. Mr Forester, co-founder and chairman, has come a long way from his market trading days but he still has to prove himself at the head of a quoted company. Kingsley came to the stock market in December 1984 as a result of a reverse takeover and since then much management time has been taken up sorting out merger and acquisition problems. Following the optimism generated by first-quarter sales, yesterday's results were disappointing. Nonetheless, a pre-tax profits rise of above 10 per cent is not to be sniffed at for a textiles company, especially as growth was held back by reorganisation costs and poor weather. The company traditionally performs better in the second half and the City expects full-year profits of about £2.5m putting the shares on a prospective p/e of 9, against a textile sector average of 11. An increased full-year dividend is also in prospect and the yield should rise to above 7 per cent.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims:—Alexander Workwear, Brent Walker, Chillington, Honda Motor, Ronald Martin, Microlease, Scanro, UEI.

Finals:—Glaxo, S. Lyles, Peterson Zochonis, Peachey Property, Pochin's, TV-am.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corre-sponding div.	Total for year	Total last year
Bryant Hldgs	2.5	Dec 3	2.2	3.7	3.3
Edinburgh Inv ...int	1.48	Dec 3	1.3	—	3.3
Farnell Electronics ...	1.3	Dec 5	1	—	2.2
Fothergill Harvey int	2.75	Dec 1	2.75	—	8.75
IBL ...int	0.4	Dec 3	0.4	—	1.2
Irish Glass ...int	¶1.5	—	1.5	2.25	1.5
Kingsley Forester ...int	1	Dec 3	1	—	3.04
Medminster	4.1	Jan 7	3.4	6.25	5.35
Ramus Hldgs	3.9	Dec 2	3.75	5.4	5.25
H. C. Slingsby ...int	1.2	—	1.2	—	4
Steel Bros ...int	4	Dec 12	4	—	16

Dividends shown in pence per share net except where otherwise stated. * Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ USM stock. § Unquoted stock. ¶ Irish pence throughout.

Reed Exec gives £15m to holders

By Charles Batchelor

Reed Executive, employment agency group, plans to pass on to its shareholders £15m of the £20m it will receive from the sale of its Medicare drugstore business to Dee Corporation, the supermarkets group. Reed's shares leaped 75p to 453p on the news.

Hill Samuel, merchant bank, which is advising Reed, said it believed that this was the first time a scheme had been designed in this way since the Furniss vs Dawson case in 1984. This established that there had to be commercial purpose to schemes intended to avoid tax liability.

Existing Reed shareholders will be issued with a new share in Reed Executive Holdings and Dee ordinary shares worth 142.86p, or the equivalent in cash, for each existing Reed share. The scheme requires the approval of the High Court.

Arcolectric

Arcolectric (Holdings), manufacturer of electric switches and neon signal lamps, reports a 20 per cent rise in sales to £3.57m (£2.98m) but pre-tax profits more than halved at £70,900 (£148,000) for the first six months of 1986. Demand continued to be buoyant but increased costs had eroded profit margins and this was still the case.

Golden Wonder

In early editions of the Financial Times of Saturday, October 11 the original provisional purchase price of Golden Wonder by Dalgety from Imperial Group was incorrectly stated and should have been £54m.

UK COMPANY NEWS

Bryant calls for £17m as profits climb to a record

BY TERRY POVEY

Bryant Holdings, the west Midlands-based housebuilder, yesterday announced a £17.4m rights issue to reduce debt along with record pre-tax profits of £13.5m for the year to May 31, up almost a sixth on last year's £11.7m.

Mr Chris Bryant, chairman and managing director, said that dearer land prices and the ending of tax relief for stock—a house builder's land bank was considered stock — had persuaded the company, for the first time since it came to the market in 1960, to have a rights issue.

The cost of expanding the land bank caused a sharp rise in interest charges to £2.23m from £414,000. In the past two year's the company has added land costing £33m to take the bank up to £72m—between three and four years worth of land said Mr Bryant.

Group bank borrowings had risen to £24.5m by the end of May and the £17.4m proceeds from the one-for-four issue at 90p is to be used to reduce gearing.

The issue is underwritten by Robert Fleming and has as its brokers, Rowe & Pitman and Smith Keen Cutler

For the year being reported Bryant has announced a final dividend of 2.5p making 3.7p (3.3p) for the year. The group expects to at least maintain this dividend on the expanded capital in the present year.

The company, with a turnover of £157m (£120m) in the last year, experienced a rise in the average price of its completed units by around £10,000 to £48,000 over the year although the number of units completed and sold was in line with 1985's at just over 2,000.

By division, the turnover figure breaks down as £107m (£82m) for homes, £43m (£24m) for construction and £7m (£4m) for property. Mr Bryant said the divisions performed well but gave no detailed profits breakdown.

Operating profits for the year were reported as rising strongly to £14.62m (£11.01m) and the contribution from associates was £1.13m (£1.08m). However, after interest payments pre-tax profits were ahead more modestly to £13.52m (£11.68m). Taxes paid were £5.28m (£5.08m) and earnings per share were ahead at 10.3p (8.2p).

● comment

With the property write-downs a thing of the past now, Bryant Holdings has finally overcome 26 years of reticence and asked its shareholders for £17m. They can hardly refuse—dividend payments this year and next will total around £7m —even if not all of them share the company's conservative attitude to any capital gearing in excess of 20 per cent. This family business which has extended its wings, both outside of the Bryant's and outside of the Midlands into the centre of the country and the south west, has a net asset value of 90p a share compared with Friday's 111p close. The elimination of the interest charge should see Bryant comfortably over the £17m mark for 1986-87 which puts the shares, at 106p, on a fully diluted prospective multiple of 10. The well covered dividend suggests that this is a bit on the modest side.

Ryman and Interlink allocations

Ryman and Interlink, the two USM debutants, yesterday gave details of how shares would be allocated to applicants.

Ryman's striking price has been fixed at 110p.

Preferential applications will be met in full and other applicants who bid at or above the striking price will receive all they asked for up to 20,000 shares. Those who applied for more than 20,000 will receive 75 per cent with a minimum of 20,000.

Preferential applications from employees and franchisees of Interlink are being met in full and those from other applicants will be met as follows:

Those applying for 200 shares will receive the full number. Those applying for 300 to 500 will receive 250, and those applying for 600 to 1,000 will receive 500. Those applying for over 1,000 will receive about 35 per cent, to a maximum of 190,000

Sandhurst in talks as shares rise 8p

BY DAVID GOODHART

Sandhurst Marketing, Horsham-based stationery and office equipment distributor, said yesterday that it was in discussion with another company which may lead to a bid being made for it.

Sandhurst made the announcement in the light of the marked increase in its share price over the past few days. It closed yesterday 8p up at 90p, giving a market capitalisation of £18m.

The company has been reporting disappointing profits in recent years—its pre-tax profit in the year to January 31 1986 of £1m was lower than the £1.27m in 1984 despite an increase in turnover from £18.6m to £29.1m.

There was some inevitable disruption in last year's move to a new £4m office/warehouse complex at Horsham near Gatwick Airport but Mr Brian Hulme, chairman, said a growth in profits to record levels was expected in the current years. Turnover was up by £1.86m to £15.9m at the half-year but operating profits was only £20,000 ahead at £1.18m.

F. W. Thorpe

Record profits were made by F. W. Thorpe, Birmingham-based lighting manufacturer, in the year to the end of June 1986. On turnover up from £6.75m to £7.53m the pre-tax figure showed an increase of 25 per cent to £1.38m against £1.11m.

Earnings per share came out at 27.4p (20.4p) and the directors are recommending a final payment of 2.8p (2.5p) to make a total for the year of 4.6p, against 3.9p.

T & N waits on Panel's AE verdict

Sir Francis Tombs, chairman of Turner & Newall, said yesterday that he now expected a formal meeting of the full Take-over Panel later this week—probably on Thursday or Friday —to decide whether AE had unfairly escaped from T & N's grasp last month.

T & N has been alleging to the Panel that several million AE shares were bought by associates of AE which should, therefore, have been disclosed but were not.

T & N, which failed by only 1 per cent to win control of AE, believes that the calling of a full Panel hearing indicates that some evidence supporting its view has been found.

Barclays sells part of its Italian interest

Barclays Bank has agreed to sell its half interest in two companies engaged in factoring and leasing in Italy. The purchaser is Banco di Napoli, which owns the other 50 per cent of each company.

The price is not being disclosed. The two companies made profits of L3.3bn (£1.67m) last year and did total business amounting to L265bn.

Barclays said the sale was initiated because Banco di Napoli wanted to have full control of the businesses. It was not related to Barclay's recent heavy losses in its Italian banking market.

Barclays will continue to operate in the Italian factoring and leasing markets through two existing wholly-owned subsidiaries.

Cronite board has no answer to shares rise

By Nikki Tait

Directors at Cronite Group, said yesterday that they had noted the recent rise in the price of the company's ordinary shares, but knew of no reasons contributing to this.

Cronite's ordinary shares rose 5p last Wednesday, 8p on Thursday and a further 6p on Friday. After yesterday's announcement, they eased back 1p to 73p.

At the last balance sheet date, there were two major outside holders of the ordinary shares—the Diversified Fund of the UK (with 14.3 per cent) and Coast Investment and Development PSC (6.66 per cent). Since then, however, Mr Bob Cheesewright of stockbrokers Charles Stanley, had built up a 7.8 per cent holding.

Rand Mines Group

RAND MINES

All companies are members of the Barlow Rand Group

Gold Mining Company Reports for the Quarter ended 30th September, 1986

(All Companies incorporated in the Republic of South Africa)

Office of the Secretaries of the undermentioned companies in the United Kingdom, 40 Holborn Viaduct, London EC1P 1AJ

HARMONY GOLD MINING COMPANY, LIMITED

Registration No. 05/38232/06

ISSUED CAPITAL: R13 442 325 IN 26 884 650 SHARES OF 50 CENTS EACH.

REPORT OF THE DIRECTORS FOR THE QUARTER ENDED 30TH SEPTEMBER, 1986

OPERATING RESULTS —ALL PRODUCTS	Quarter ended 30.9.1986	Quarter ended 30.6.1986
Ore milled (t):	2 141 000	2 076 000
Gold—produced (kg):	7 449	7 308
—yield (g/t):	3.47	3.52
Uranium—slime treated (t):	1 194 000	1 377 000
—Oxide produced (kg):	77 329	96 500
—yield (kg/t):	0.064	0.069
Pyrite—concentrate recovered (t):	5 716	22 440
Sulphuric acid produced (t):	20 701	23 783
Total revenue (R/t milled):	109.61	94.76
Total cost (R/t milled):	75.28	68.53
Total profit (R/t milled):	34.33	26.23
Gold price received—(R/kg):	29 911	25 763
FINANCIAL RESULTS (R000's) —ALL PRODUCTS		
Revenue—gold and silver	222 806	188 298
—uranium, pyrite and sulphuric acid	11 876	8 428
Total revenue	234 682	196 726
Cost	161 176	142 262
Working profit	73 506	54 464
Sundry revenue (net)	4 215	5 564
Profit before taxation and State's share of profit	77 721	60 028
Taxation and State's share of profit	9 963	299
Profit after taxation and State's share of profit	67 758	59 729
Capital expenditure	48 234	43 061
Dividend (interim) declared	30 917	—

DIVIDEND

Interim dividend No. 60 of 115 cents per share was declared on 11th September, 1986 and payable on or about 7th November 1986 to shareholders registered on 26th September, 1986.

CAPITAL EXPENDITURE

There are commitments for capital expenditure amounting to R23 241 000. Capital expenditure for the remainder of the financial year is provisionally estimated at R89.9 million.

HARMONY NO. 4 SHAFT — GOLD PLANT

Commissioning of the new plant commenced during September 1986.

VIRGINIA URANIUM PLANT

As a result of the declining trend in both demand and price for Uranium a decision was taken to close the Virginia plant at the end of August 1986.

FINANCIAL RESULTS

The financial figures for the June quarter have been amended as a result of the year-end audit.

For and on behalf of the board,
C. G. KNOBBS (Chairman)
M. A. WATSON (Managing Director) } Directors

8th October, 1986

DURBAN ROODEPOORT DEEP LIMITED

Registration No. 01/00926/06

ISSUED CAPITAL: R2 325 000 in SHARES OF R1.00 EACH.

REPORT OF THE DIRECTORS FOR THE QUARTER ENDED 30TH SEPTEMBER, 1986

OPERATING RESULTS	Quarter ended 30.9.1986	Quarter ended 30.6.1986
Gold		
Ore milled (t):	602 000	602 000
Gold produced (kg):	1 867.5	1 938.4
Yield (g/t):	3.10	3.22
Revenue (R/t milled):	93.26	80.51
Cost (R/t milled):	79.15	73.47
Profit (R/t milled):	14.11	7.04
Revenue (R000's):	56 143	48 469
Cost (R000's):	47 651	44 228
Profit (R000's):	8 492	4 241
Gold price received (R/kg):	30 063	25 005
FINANCIAL RESULTS (R000's)		
Working profit—Gold	8 492	4 241
Sundry Revenue (net)	1 290	971
Profit before taxation and State's share of profit	9 782	5 212
Taxation and State's share of profit	—	—
Profit after taxation and State's share of profit	9 782	5 212
Capital expenditure	3 779	3 198

CAPITAL EXPENDITURE

There are commitments for capital expenditure amounting to R1 495 000. The estimated total capital expenditure for the remainder of the current financial year is R5.3 million.

6 SHAFT

On 22nd August an upcoming skip in 6 shaft left the guides causing considerable damage. By 12th September repairs had been effected and shaft winding operations were resumed. As a result of this incident 32 000 tons of ore could not be hoisted.

For and on behalf of the board,
C. G. KNOBBS (Chairman)
H. G. MOSENTHAL (Managing Director) } Directors

8th October, 1986

BLYVOORUITZICHT GOLD MINING COMPANY, LIMITED

Registration No. 05/09743/06

ISSUED CAPITAL: R6 000 000 in 24 000 000 SHARES OF 25 CENTS EACH.

REPORT OF THE DIRECTORS FOR THE QUARTER ENDED 30TH SEPTEMBER, 1986

OPERATING RESULTS	Quarter ended 30.9.1986	Quarter ended 30.6.1986
Gold		
Ore milled (t):	588 000	589 000
Gold produced (kg):	3 370.9	3 622.0
Yield (g/t):	5.73	6.15
Revenue (R/t milled):	175.15	158.05
Cost (R/t milled):	91.08	84.00
Profit (R/t milled):	84.07	74.05
Revenue (R000's):	102 990	93 088
Cost (R000's):	53 557	49 475
Profit (R000's):	49 433	43 613
Gold price received—(R/kg):	30 552	25 700
FINANCIAL RESULTS (R000's)		
Working profit—Gold	49 433	43 613
Working profit—Uranium oxide	—	7
Sundry expenditure—(net)	(1 042)	(1 425)
Profit before taxation and State's share of profit	48 391	42 195
Taxation and State's share of profit	28 826	23 793
Profit after taxation and State's share of profit	19 565	18 402
Capital expenditure	5 078	4 700
Dividend declared	—	24 000

CAPITAL EXPENDITURE

There are commitments for capital expenditure amounting to R2 114 000. The estimated total capital expenditure for the remainder of the current financial year is R16.2 million.

TRIBUTE AGREEMENT WITH DRIEFONTEIN CONSOLIDATED LIMITED

In terms of a tribute agreement between Driefontein Consolidated Limited and this company, concluded on 26th July 1984, a share of profits amounting to R3 589 000 is due to that company for the quarter ended 30th September 1986. This amount has been taken into account in determining "Sundry expenditure (net)."

UNDERGROUND FIRE

A fire broke out in the upper Western section on 18th August, 1986. The area was finally sealed on 25th August, 1986. Production was affected, and it is estimated that 14 000 tons were lost as a result of the fire.

For and on behalf of the board,
C. G. KNOBBS (Chairman)
H. G. MOSENTHAL (Managing Director) } Directors

8th October, 1986

EAST RAND PROPRIETARY MINES LIMITED

Registration No. 01/00773/06

ISSUED CAPITAL: R11 088 000 IN SHARES OF R1.00 EACH.

REPORT OF THE DIRECTORS FOR THE QUARTER ENDED 30TH SEPTEMBER 1986

OPERATING RESULTS	Quarter ended 30.9.1986	Quarter ended 30.6.1986
Ore milled (t):	715 000	684 000
Gold produced (kg):	2363.1	2 235.7
Yield (g/t):	3.31	3.37
Revenue (R/t milled):	99.93	85.96
Cost (R/t milled):	104.41	98.92
Loss (R/t milled):	(4.48)	(12.96)
Revenue (R000's):	71 447	57 077
Cost (R000's):	74 652	65 683
Loss (R000's):	(3 205)	(8 606)
Gold price received (R/kg):	30 234	25 530
FINANCIAL RESULTS (R000's)		
Working loss:	(3 205)	(8 606)
Sundry revenue—(net):	312	798
State assistance claimed	—	9 069
State assistance adjustment previous year	—	(190)
Loss before taxation and State's share of profit	(2 893)	1 071
Taxation and State's share of profit	(2 557)	2 557
Loss after taxation and State's share of profit	(336)	(1 486)
Capital expenditure	22 034	18 834

CAPITAL EXPENDITURE

There are commitments for capital expenditure amounting to R48 437 000. The estimated total capital expenditure for the remainder of the current financial year is R24.3 million.

LOAN GUARANTEE

The company has entered into a loan guarantee agreement with the Government of the Republic of South Africa whereby they have undertaken to provide a guarantee of up to a maximum of R200 million, to certain financial institutions through which loan funds will be made available to the company.

GOLD HEDGING

The company has sold gold in terms of its gold hedging operations as detailed below:

Quarter	Kilograms of Gold Sold	Minimum average realisable value per kilogram sold
1986—4th	747	R30 624
1987—1st	373	R30 840

The proceeds from hedging transactions finalised during the quarter form part of revenue derived from the sale of gold.

For and on behalf of the board,
C. G. KNOBBS (Chairman)
M. A. WATSON (Managing Director) } Directors

8th October, 1986

GENERAL NOTES

1. All financial figures are subject to audit.
2. Costs
Costs for the September quarter reflect the full effects of the increase in officials' salaries in May, skilled wages in June and unskilled wages in July.

UK COMPANY NEWS

Adverse exchange rates check Steel Bros growth

BY PHILIP COGGAN

ADVERSE EXCHANGE rates knocked £1m off interim pre-tax profits at Steel Brothers Holdings, the overseas trading company. For the six months to June 30 1986 profits were only £5.49m, compared to £5.44m at last year's interim stage and the chairman Mr A. P. de Boer expected the full year figures to be little different from last year's.

Since the last financial year end, Steel Brothers has replaced its old industry divisions with regional ones. By far the biggest increase in trading profit (from £875,000 to £1.7m) was in the European division. This benefited from increased demand for underground transport at Becorit, better results at the Eurya rice milling and distribution group and the effect of the buoyant UK air charter market on the catering operations at Gatwick, Luton and Glasgow.

In North America, currencies helped push down trading profit to £2.04m (£2.33m).

The effect of lower oil prices reduced revenues in Spinneys Middle East operations and the region's trading profits were down to £2.86m (£3.57m).

Turnover was £119.7m (£114.5m). After tax of £2.29m (£2.14m), earnings per share were down slightly at 21.45p (21.83p). The interim dividend is maintained at 4p.

● comment

Like Napoleon's armies, which marched on their stomachs, Steel Brothers has for many years relied on its food and catering division. The company's helpful decision to show these figures split by both old (industrial) and new (regional) divisions shows that for once food has let Steel down. That reflects both currencies and a slack Middle Eastern market. What the structural change might obscure is Steel's strategy of selling off peripheral interests, particularly in engineering, and concentrating on food and lime. Once that task is complete, Steel will be able to sit back and wait for currencies and economic trends to move in its favour. For the full year, pre-tax profits of £12m would put the shares, at 560p, on a prospective p/e of 12. However, two thirds of the shares are split between Gargour and BSC and this is doing more to determine the price than the earnings prospects.

Fothergill profits down 21%

PROFITS of Fothergill and Harvey, the Lancashire-based advanced materials processor and manufacturer of electrical insulation materials, fell 21 per cent from £1.4m to £1.11m in the six months to June 28 1986, on turnover marginally higher at £17.6m.

The profits shortfall reflected considerable problems in the advanced materials sector of the company's business, and in particular the metal surfaces treatments where the collapse in oil prices resulted in a loss of turnover from offshore oil industries, said the chairman Mr L. Stevens.

However, he expected an improved profits performance in the second half following the introduction of a programme to widen the product base of the advanced composites sector of the group, both in the UK and America, and cutbacks in the company's industrial textiles operation.

He envisaged a complete restructuring of the textile subsidiary to establish a smaller, more specialised and profitable operation. Mr Stevens said many aspects of manufacturing performance remained sluggish and there was no immediate improvement in demand.

The advanced materials sector turned in a loss of £136,000, compared with a profit of £148,000 last time, while earnings from coated and uncoated engineering fabrics were £230,000 down at £617,000. Profits of the group's electrical insulation sector rose from £418,000 to £535,000.

Earnings per share came out at 5.61p (6.52p) and the interim dividend is held at 2.75p—last year a total of 8.75p was paid.

Interest charges were £128,000 (£87,000) and tax totalled £408,000 (£547,000). An extraordinary debit of £130,000 resulted from the closure of many supporting services at the company's Littleborough site.

Medminster beats forecast

Medminster, the London-based group which provides furniture hire and shipping and forwarding services, announced yesterday that its profits for the 1985-1986 year had risen to £573,318 at the pre-tax level.

That was an improvement of 23 per cent over the previous year's £465,495, and some £70,000 ahead of the directors' forecast made in July at the time of the £550,000 rights issue.

The final dividend is being lifted to 4.1p (3.4p) making a net total for the year to end June 1986 of 6.25p, an increase of 0.95p. Earnings worked through at 17.67p (15.14p) per 10p share.

The directors said that in the furniture division, Old Times Furnishing continued to produce secure and stable profits.

They added that the shipping activities generate large cash which gives the group financial strength to take advantage of any situation which may present itself to its core business.

Cube's London office, opened in June last year, was now handling traffic from appointed agents in Portugal, the Far East and the US and signs were described as encouraging.

The joint venture with Turner & Newall which Medminster started last year had gone well and was gathering momentum.

Several T & N mill companies were already supporting the service which now included Hong Kong, the Philippines, Thailand, Malaysia and Taiwan.

The directors said Cube was promoting the service to third party users and that this had also produced results with a regular flow of traffic outside the T & N group. With the introduction of the new trade areas, Medminster was looking for an increase in its traffic pattern.

It was pointed out that by the end of the year, the shipping division should be fully computerised, bringing benefits to both the group and its clients.

Group turnover for the past year totalled £11.71m (£12.92m). Tax accounted for £219,958 (£162,700) and left net profits at £353,360, compared with a previous £302,795.

The John Delaney Group is Medminster's ultimate holding company.

Hargreaves forecasts 27% hoist in dividend

By Nikki Tait

Hargreaves, the fuel-processing, transport and quarries group which is facing a £77m hostile bid from Coalite, yesterday forecast a 27 per cent dividend increase in the current year — to 7p a share —but omitted to make any profits prediction.

Hargreaves said that a profits forecast would be inappropriate, "because of the uncertainty associated with the present volatility of energy prices and the fact that Hargreaves is early in its financial year." The group's year-end is March 31.

Hargreaves managing director, Mr Bob Strachan, added: "the bulk of our energy profits come in the winter months. We feel it would be irresponsible to our shareholders to make a forecast now, given the strict terms of the Takeover Panel."

The large dividend increase, he suggested, should be read as a sign of the company's current optimism.

But the lack of profit forecast was immediately criticised by Coalite which described Hargreaves' statement as disappointing and said it was a marked contrast to the company's earlier confidence.

At the second closing date —last Friday—Coalite had received acceptances in respect of 417,204 Hargreaves shares, or 1.15 per cent of those offered. Coalite also owns 1.685m shares in the company, or 4.64 per cent, giving it aggregate acceptances in respect of 5.81 per cent of the Hargreaves shares —barely changed from the first closing date.

The offer is now being extended to a final closing date of November 2.

Coalite's current terms are one Coalite share plus 600p in cash for every four Hargreaves shares—which, with Coalite at 265p yesterday, values each Hargreaves at 216p. Hargreaves' share price—up 8p to 260p—is still looking either to a higher Coalite bid or a white knight. Mr Strachan added: "We have had talks with two or three very serious contenders"

GOLD FIELDS COAL LIMITED

(Formerly The Clydesdale (Transvaal) Collieries Limited)
(Incorporated in the Republic of South Africa)
A MEMBER OF THE GOLD FIELDS GROUP
(Registration No. 01/01124/06)

ISSUED CAPITAL: 14,862,721 shares of 50 cents each

	Quarter ended 30 Sept 1986	Quarter ended 30 June 1986	Nine Months ended 30 Sept 1986
OPERATING RESULTS (tons 000)			
Total mined	2 246	2 385	7 412
Tons sold	1 967	2 179	6 376
FINANCIAL RESULTS (R000)			
Sales and other revenue	47 977	51 743	152 410
Cost of sales	36 654	37 915	113 573
Profit before tax	11 323	13 828	38 837
Tax	4 846	7 274	18 782
PROFIT AFTER TAX	6 477	6 554	20 055
Capital expenditure	2 315	1 284	6 226
Dividend		8 431	8 431

NOTES:

1. Capital Expenditure: The unexpended balance of authorised capital expenditure at 30 September 1986 was R10.9 million.
2. Dividends: A dividend (No. 146) of 50 cents per share declared on 12 June 1986 was paid to members on 6 August 1986.

On behalf of the board
P. R. JANISCH
M. B. FORSYTH } Directors

13 October 1986

COMPANY NEWS IN BRIEF

REMBIA RUBBER pre-tax profits fell from £51,493 to £37,334 for the half year ended June 30 1986 from turnover down from £94.13m to £18.9m. After tax of £12,300 (£17,200) earnings per 5p share were shown as 0.65p (0.89p). Adverse weather earlier in the year reduced the rubber crop but for the six months it was in line with last year, although behind estimates, the directors pointed out.

EDINBURGH Investment Trust interim dividend is lifted from 1.3p to 1.48p for the period ended September 30, 1986. After taxe of £2.77m (£2.54m) earnings came through ahead from £5.21m to £6.35m equal to 2.23p (1.82p) per share. Net asset value was given as 194.3p (192.8p) after prior charges at book value.

FARRINGTON STEAD & CO was compulsorily wound-up in the High Court yesterday on a petition by the Inland Revenue, creditor for £43,046. No other creditors appeared to support or oppose the petition and the company was not represented.

WARWICK INTERNATIONAL, a wholly-owned subsidiary of Ault & Wiborg Group, has been acquired by Jotun Polymer, which is wholly-owned by Jotun a.s. of Norway. The deal means that Jotun has acquired Warwick's polyester chemicals businesses worldwide. Following final agreement, Jotun will assume the management and operation of Warwick's factory located at Mitcham, Surrey.

CLOSE BROTHERS is buying Air and General Finance aircraft financing specialist, for an initial payment of £3.32m in cash and further payments via loan notes of £550,000 in 1987 and £550,000 in 1988. The two loan notes payments are subject to Air and General attaining pre-tax profits of £540,000 and £763,000 for the periods ending July 31 1987 and July 31 1988 respectively. In the year ended March 31 1986 Air and General earned profits before tax and extraordinary items of £490,000.

BAMBERG GROUP's cash offer to acquire Glos Air Aviation was accepted in respect of 340,750 ordinary shares (12.6 per cent). Prior to the offer (on August 14) Bamberg purchased 1.68m shares (62.6 per cent). The offer expired on October 10.

HODGSON HOLDINGS, Birmingham-based funeral director floated on the USM in June, has bought R. Morgan Funeral Directors, of Sedgley, West Midlands, for £60,000. The acquisition will provide an additional 100 funerals per annum to the Hodgson total.

WIDNEY has reached agreement with Imhof-Bedco Standard Products to buy its Imlock division for £250,000 via the issue of 333,334 new Widney ordinary shares. Widney has made arrangements for the new shares to be placed—subject to the approval of Widney shareholders—with institutional investors at 30p a share. Imlock's pre-tax profits in 1985 totalled £352,000.

LOW AND BONAR, a Scottish packaging, plastics, textiles and electronics manufacturer, has purchased a 50 per cent stake in West Germany's leading rotational moulding company, Rhein-Conti, and its French subsidiary, Anisa, for £1.7m. The deal grants Low and Bonar exclusive options to acquire remaining shares in Rhein-Conti over the next several years on a profits-related basis.

UK COMPANY NEWS

French recovery helps IBL midterm profits to £1.6m

BY RICHARD TOMKINS

IBL, the computer leasing company whose shares slumped in the summer after a downturn in annual profits, yesterday reported a pre-tax advance from £1.08m to £1.59m for the six months to June 30, 1986.

Mr Philip Coussens, the chairman, said the setback in France which had hit last year's second half had now been overcome and that the company had achieved "pleasing results in all our major areas of operation."

IBL's shares—floated on the stock market in May last year at 140p—closed 5p up at 58p.

Group turnover rose from £90.7m to £113.35m and the operating profit rose from £1.69m to £2.51m. The interest charge rose steeply from £643,000 to £877,000, partly because of the effect of exchange rates on foreign borrowings.

Earnings per share rose by 27 per cent to 1.65p (1.30p) and the interim dividend is maintained at 0.4p.

Mr Coussens said the French subsidiary, which cost the group over £3m last year by taking on unprofitable business, had been thoroughly reviewed. About £300,000 of costs had been incurred through the need to renegotiate potentially loss-making leases, but the subsidiary had nearly broken even and should make a positive contribution for the full year.

In the US, turnover rose from $3.3m to $19m (£13.28m) but profits had been delayed into the second half by the uncertainties caused by tax reform proposals. A loss of several hundred thousand pounds had been taken in the first half, but a satisfactory profit was expected for the full year.

Elsewhere, the 25 per cent turnover increase reflected IBL's policy of concentrating its resources on servicing the existing service base, which had been enlarged by the acquisition of the former ICC lease portfolio in West Germany. The sale of some ICC's residual interests had contributed to profits.

Mr Coussens said he saw further acquisitions as a more effective means to growth than seeking to expand the customer base in very competitive conditions. He did not see IBL itself as a bid candidate, at least not at yesterday's share price level. "At 200p, it might be worth thinking about."

● comment

After the debacle of last year's second half in France, IBL must have felt itself under considerable pressure to produce signs of respectable growth yesterday: yet, perhaps chastened by the punishment meted out to lessors which take an over-optimistic view of their prospects, it seems to have erred on the side of caution. In France, it has acted swiftly to eliminate further potential losses by taking renegotiation costs of £300,000 on the chin; in the US, it has taken in probably $1m of losses rather than anticipate the sale of tax benefits in the second half; and it continues to adopt a relatively conservative view of the value of its residual interests. Just on a bounce-back in France, the profits from the US and a full year from the ICC portfolio, at least £10m must theoretically be in prospect for 1986—producing a p/e multiple of well under 6. There is many a slip, to be sure, and at any price IBL could only be seen as a highly speculative punt: but if less than £10m provoked a bid from Atlantic, there would at least be a safety net.

New product ranges push Ramus to £0.7m

THE introduction of successful new ranges in each of its established product areas — ceramic tiles, furniture and vinyl—contributed to both higher turnover and pre-tax profits at Ramus Holdings, an Unlisted Securities Market company.

Profits for the year to July 7 1986 rose from £597,000 to £720,000, and sales rose from £27.8m to £30.7m.

Mr E. J. Ramus, the chairman, said yesterday that the reduced tax charge of £231,000 (£319,000) resulted in distributable profits increasing from £278,000 to £489,000, giving earnings per 25p share of 11p against 6.3p. The final dividend is raised from 3.75p to 3.9p for an increased total of 5.4p (5.25p).

Mr Ramus said sales of the group's traditional branded ranges of mainly British products remained the basis of its business and continued to expand.

He stated: "We are also developing a marketing strategy beyond pure stockholding and distribution, involving co-ordination of our various products by design and colour

Moorgate Group up 31% and sees more growth

Moorgate Group, marketing, advertising and public relations company, reported pre-tax profits up by 31 per cent in the first half of 1986. And with prospects for the present six months described as excellent, a further substantial increase in profits was expected.

Turnover for this USM-quoted company rose by 58 per cent to £10.31m (£6.53m) with pre-tax profits of £324,000 against £247,000. Earnings per 5p share came out at 3.22p (2.31p).

The figures for the period were prepared on "merger" accounting principles to include Money Marketing (Design) and Response Marketing International. The comparatives have been restated.

Mr Jeremy Bond, chairman, said that the company expanded considerably during the period and the number of clients had risen dramatically. Staff had almost doubled in the period from 53 to 97.

He added that the financial services industry was enjoying an explosion and that Big Bang and other changes has already escalated the demand for Moorgate's services. He also said that with many clients looking to Europe the company might have to consider establishing a presence on the Continent.

Mr Jon Sayers, joint managing director, was leaving the company and steps were being taken to recruit a chief executive for the group's US company which Mr Sayers had been responsible for building up.

Slingsby profits down at £0.13m

H. C. Slingsby, Bradford-based maker of trucks and ladders, made £132,000 pre-tax in the first half of 1986, against £149,000 on turnover up from £2.86m to £3.23m. Directors said that while sales continued to improve there were higher costs in supporting sales and substantial rent and rate increases.

Earnings per share came out at 8.3p (10.2p) and the interim payment has been maintained at 1.2p.

Irish Glass improves to I£1.07m at year-end

Irish Glass yesterday reported its best results since 1982 with pre-tax profits up from I£771,000 to I£1.07m in the year to June 24 1986. Turnover was static at £32.67m against £32.64m.

The directors said the good results were due to improved performance and lower energy costs. The home market was very disappointing.

The total dividend is raised from 1.5p to 2.25p, but despite an unchanged final of 1.5p net.

The enterprise economy

Why the climate has changed immeasurably

William Dawkins talks to the author of the 1971 Bolton report

SEATED IN the sunlit stone folly that graces the grounds of his country home in Surrey, John Bolton speaks of the progress of the small business sector in Britain with a mixture of sadness and hope.

It is now 15 years since Bolton, almost 66, launched the sector into new political prominence with the publication of his controversial government report into the serious decline occurring at the end of the 1960s in the number of small companies operating in the UK.

The Bolton report predicted that if nothing was done to safeguard the sector's interests "there would be virtually no small firms in UK manufacturing industry soon after the end of the century." That prophecy was instrumental in galvanising successive governments into supporting the sector and is largely responsible for the public importance—though not nearly enough importance, argues Bolton—accorded to small business development today.

Bolton, now semi-retired, still keeps an eye on the sector as a private investor in around 10 fledgling ventures and as a non-executive director of several more. "I am on the boards of five multinationals so as to stay respectable and on five small businesses because that's what life is all about," he jokes, with the amused cynicism that is a privilege of being the grandfather of small companies in Britain.

Of course much has changed since 1971, including Bolton's own views of the extent to which the sector needs to be supported by public policy makers and financial providers. Yet looking back over the past decade and a half in which small businesses have climbed to public attention, he does not entirely like what he sees—even if the tide of small business decline has turned.

It goes without saying that Bolton is delighted that most of his report's 60-odd recommendations for revitalising the sector, ranging from the establishment of advising bureaux and a small firms division in the civil service to setting up management training measures, have been put into effect. And he is the first to admit that events like the birth of the Unlisted Securities Market six years ago, the explosion in the availability of venture capital and the existence of a voice for small business in the Cabinet in the form of Lord Young, the Employment Secretary, are all fundamental steps in the direction of establishing a wider dispersal of economic power and a more entrepreneurial industrial culture.

But there is a new set of problems, which Bolton never envisaged when he wrote his report: the task now required of the small business world has grown out of all proportion to the resources handed to it in recent years.

Inequalities

"I am not saying that the measures the Government has taken are not extremely valuable," he emphasises. "But they are a drop in the ocean compared with the needs of our situation. When we reported, we thought that all that was needed was a bit of a nudge to remove inequalities between small firms and big ones—and small buisness would then fulfil their role of regenerating the economy. But it is now manifestly obvious that they don't have a cat's chance in hell of doing so because the scale of the problem has grown immeasurably."

While financial definitions of what constitutes a small business inevitably change over the years to take account of inflation, Bolton points out that his report's original broad economic description of a small business is still fundamentally true: an independent enterprise, with a relatively small share of its market, managed by its owners in a personalised way.

Bolton has done a U-turn from his report's contention that equality of opportunity was enough to create a prolific small business sector, to now advocate energetic public discrimination in favour of young enterprises. "By that I don't mean intervention," he explains. "I am arguing for more positive activity in support of small firms with as little intervention as possible."

The reasons for Bolton's U-turn are twofold: the dramatic rise in unemployment and the increasing success of low cost competition in many manufacturing sectors from newly industrialised nations.

But why are these very wide ranging problems anything to do with small businesses?

Bolton subscribes to the conventional wisdom about the pivotal role that small businesses should play in job creation, but he takes it an unconventional stage further. "Large companies are now reducing their labour forces more than ever before. They have no alternative, indeed it is in the country's best interests that they should. That means that small businesses can be the only source of reduction in unemployment," says Bolton.

However, public policy makers might find it harder to swallow his estimate of the amount of cash required to stimulate small business activity enough to mop up the jobs being shed by large groups. As a rough guide, he estimates that the creation of one job in a start-up venture requires an investment of £10,000 on average. That, incidentally, is good value against the £80,000 sometimes quoted as the cost per job of public assistance to large companies in development areas, he adds.

Given that start-ups generally show a 50 per cent to 80 per cent drop-out rate and that the average small business employs around five staff, "you are looking at the creation of somewhere between 400,000 and 1m new firms if you want to reduce unemployment by 1m," claims Bolton. It does not take much to work out that the investment required is £10bn at the very least, a sum which dwarfs the amount attracted to small businesses by government policies, he points out.

John Bolton: arguing for more positive activity with as little intervention as possible

"We have this enormous problem, and yet you still find the Government tinkering with the Loan Guarantees Scheme just because an accountancy firm produces a report showing that the losses are slightly higher than anticipated. Meanwhile, the West Germans go out and launch a fixed interest government guaranteed loan scheme at 8 per cent which is something like 100 times the size of ours.

"We just have not realised that we have to meet our competitors in what we are doing. Much less have we realised that we have to meet what we are doing for small firms to the needs of the situation," complains Bolton.

On the low cost foreign competition front, he similarly subscribes to conventional thinking on small business' broad role, but suggests that a strikingly radical approach is needed. It would be futile, he argues, for manufacturers in general to attempt to compete on cost against highly efficient producers in Japan, for instance. "If all we do is follow Japanese cost saving methods, the end result will merely be to achieve equality in production costs. So the only hope lies in producing better and more innovative products."

Here small businesses should play a bigger part than they do by virtue of their efficiency in commercialising research and development, says Bolton, who is fond of citing a US National Science Foundation study showing that small ventures produce 24 times as many innovations per dollar invested in R&D as their big brothers.

In this respect, he welcomes measures like the now—sadly—extinct Small Engineering Firms' Investment Scheme, which put out £48.2m to 3,424 projects in the year before it was wound up last March. But again, this is insignificant against the £4bn required, according to a recent industry study, to bring the engineering sector to the same technological level as its West German counterpart, points out Bolton.

Finding a practical method of multiplying by many times the resources now devoted to small businesses is, however, another story. Here Bolton frankly admits he has not a clue, though he does offer a few broad suggestions as to where to begin.

Liberalise

Like most small business observers, Bolton believes the first step to creating a more successful small business sector should be in finding some way to encourage clearing banks to liberalise their lending criteria. But this is not just, as most people would argue, because the main clearers are already conveniently on the spot with their 12,500 branches.

It is, says Bolton with another refreshing breath of honesty, "because as I grow older I increasingly see that the chances of success are more and more random. That means it is necessary to launch a wide spectrum of new endeavours and to take a fairly broad brush approach about the things one is prepared to back. The clearing banks are the ones to do it, but they don't seem to comprehend that part of their role."

Through all his suggestions runs one strong anxiety—that by concentrating on fine tuning the small business measures already in place, the Government risks ignoring the fact that its efforts fall, in Bolton's view, several orders of magnitude short of the mark.

A vivid illustration of that worry, he says, is the Government's handling of the Business Expansion Scheme, which offers tax breaks to individuals who invest in unquoted ventures (not, incidentally, a Bolton report idea). He believes the Treasury has fundamentally misunderstood the real value of the BES in its stringent attempts to stop investors exploiting the scheme as a tax shelter.

The result has been that BES has become undesirably complex for companies to use and has ended up with some puzzling rules, like the one that forbids tax relief for people who are paid to give advice to their own BES investments. Advice, after all, is one of the things that small businesses need badly, points out Bolton.

"This is a prime example of how Whitehall seems to have an absolute paranoia against people cheating. Surely it is much better to get a scheme like this up and running in a big way and then look for the flaws?" he asks. It all boils down, argues Bolton, to a question of political will and administrative power.

A Geneva focus for venture capital

BY WILLIAM DULLFORCE

A EUROPEAN venture capital company with SFr 31.1m (£13.5m, $19m) available for investment has been set up in Geneva to serve young, growing enterprises in the "golden triangle" between Frankfurt, Florence and Toulouse.

Formed by Baring Brothers Hambrecht and Quist (BBHQ), which will act as its advisers, Baring Brothers Hambrecht Alpine (BHA) is backed by 14 banks, institutional and corporate investors, among them three Geneva private banks—Hentsch, Mirabaud and Pictet. The investors are mostly Swiss-based but include multinational corporations whose principal interests are outside Switzerland.

BBHQ sees the new company as part of its attempt to stimulate transnational venture capital investment in Europe. A drawback for Europe compared with the greater vitality of the venture capital movement in the US has been the tendency of European enterprises to underestimate their European or even global growth potential, says Richard Onians, BBHQ's chief executive.

BHA's catchment area is described by Wladimir Mollof, managing director of BBHQ's Geneva office, as one of the most exciting in Europe with the highest concentration of technological centres, an entrepreneurial heritage and a mass of small and medium-sized businesses.

Plans by the Geneva stock exchange to establish a second market for smaller enterprises are regarded as another factor in favour of BHA.

Some 40 per cent of BHA's funds will be earmarked for Switzerland but of its first three investments totalling SFr 1.5m one is Swiss and two are Italian. The Swiss company is Aciera at Le Locle, near Neuchâtel, a machine-tool enterprise now marketing upgraded numerically controlled precision tools.

In Italy BHA has invested in Easy SpA, which makes systems based on microprocessors for monitoring and controlling temperatures. It was established three years ago by Professor Vito Mauro of the Turin Polytechnic.

The other Italian recipient is Nava, near Milan, which specialises in polymer and composite materials and has been marketing motorcycle and military helmets. It is currently trying to launch a revolutionary ski-boot and binding system.

Three main criteria are being applied by BHA to investment proposals. They are;

- the company must have an existing professional management team that is well above average;
- its market segment must have international potential, be of adequate size and show minimum annual growth of 25 per cent;
- it should offer a service or product that has a competitive edge or sufficient differentiation.

In an enterprise that met these criteria BHA would expect to take a substantial minority holding and to appoint a representative to the board. The BBHQ philosophy, Onians stresses, is to give "hands-on" support with its investments, drawing on the management skills available to it from its mix of backers.

BBHQ was formed only two years ago at the initiative of Baring Brothers, the London merchant bank. Its other partners are Hambrecht and Quist, one of the largest US venture capital groups, and Orient Capital, an important Japanese venture capital fund.

Already BBHQ has $50m either invested or available. It has established three venture capital funds but BHA in Geneva is its first company.

Following US rather than current European practice BHA will charge an annual fee of 2.5 per cent of the funds under management. After the investors' original stakes have been paid back, the division of profits will be 80 per cent to the investors and 20 per cent to the management and advisory group.

In the US the more successful venture capital funds have shown rates of return on their investments of 40 per cent or more. "We do not yet know whether Europe has that kind of an economy," Onians says, "but we think it is a reasonable expectation to obtain twice the cost of the capital." He is looking for a return "in excess of 25 per cent."

Onians disagrees with the view that in Switzerland 10 to 12 per cent represents a good return. "If that is the best we could do, we would put our money elsewhere," he says with confidence.

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FT LAW REPORT

Insurers liable in damages for breach of utmost good faith

BANQUE KEYSER ULLMANN AND OTHERS v SKANDIA (UK) INSURANCE CO LTD
Queen's Bench Division (Commercial Court): Mr Justice Steyn: September 30, 1986.

INSURERS OWE a duty of utmost good faith to the insured, breach of which can give rise to damages, and which requires them to disclose knowledge of the broker's past deceit. Also, they owe a common law duty of care requiring such disclosure if it is reasonably foreseeable that non-disclosure would create a manifest and obvious risk of financial loss by the insured.

Mr Justice Steyn so held when giving judgment for the insured, Banque Keyser Ullmann and other banks, in their action for damages against insurers, Skandia (UK) Insurance Company Limited and Westgate Insurance Company (formerly Hodge Mercantile and General Insurance Company), in respect of losses on loans made by the banks to four companies controlled by Mr Jaime Ballestero.

HIS LORDSHIP said that during 1979 to 1981 Mr Ballestero persuaded the banks to enter into separate loan agreements totalling SFr 80m with four companies which he owned or controlled.

The principal securities offered were gemstones and a credit insurance policy. Each policy contained a fraud exclusion clause. The insurances were arranged through a reputable firm of Lloyd's brokers. Mr Roy Lee was the broker who negotiated all the relevant insurances.

The borrowing companies defaulted on the loans. It was discovered that Mr Ballestero had perpetuated a massive fraud on the banks. The value of the gemstones proved to be negligible. Mr Ballestero and the funds extracted from the banks had disappeared.

The banks claimed reimbursement under the insurance policies. The insurers replied they were under no liability. Litigation commenced in the Commercial Court, during which the banks conceded that by reason of the fraud exclusion clauses the insurers were not liable under the policies.

But the banks discovered that Mr Lee had repeatedly deceived them in relation to the insurances which he arranged on their behalf. They contended that they had a cause of action against the insurers, arising from the insurers' knowledge of Mr Lee's conduct.

Mr Lee had placed part of the cover with Hodge, through its senior underwriter, Mr Cyril Dungate. Relying on the truthfulness of Mr Lee's cover notes the banks advanced moneys under the loan. Had they known the true position completion would not have tken place.

In early June 1980 Mr Dungate became fully aware that Mr Lee had deliberately deceived the banks by the issue of false cover notes and that following the deception there had been a substantial gap in the insurance cover to the potential detriment of the banks.

Mr Dungate did not report the matter. Instead he proceeded to underwrite other loans to the companies on behalf of Hodge, and on behalf of Skandia, his employer after October 1980. He wrote lines in respect of new loans, amounting to SFr 53.75m after the discovery of Mr Lee's deceit.

The banks contended that if the insurers, Hodge and subsequently Skandia, had disclosed Mr Lee's deceit no further loans would have been made and loss would have been averted.

Evidence established that in the London market it would be regarded as unprofessional for an underwriter who was aware that a broker had deceived his principal, to continue to underwrite business through him, unless the deception was disclosed to the insured.

The banks asserted that the insurers were under a legal duty to disclose Mr Lee's dishonesty. They alleged the insurers were in breach of the common law duty of care and of the duty of utmost good faith.

(a) The duty of good faith

Reciprocal duties rested on both parties to an insurance contract, not only to abstain from bad faith, but also to observe in a positive sense the utmost good faith, by disclosing all material circumstances (see *Carter v Boehm (1766) 3 Burr 1905*). The relevant duties applied before the contract came into existence and applied to every contract of insurance.

The insurers' duty would cover matters peculiarly within their knowledge of which they knew the insured was ignorant and unable to discover, but which were material in the sense of being calculated to influence his decision to conclude the insurance contract. In considering whether the duty of disclosure was activated a court ought to test any provisional conclusion by asking: Did good faith and fair dealing require a disclosure?

In the present case Mr Dungate knew the policies were the banks' principal security. In June 1980 he knew Mr Lee had been guilty of a grave deception, but he chose to enter into further contracts of insurance with the banks, knowing they were exposed to risk.

If good faith and fair dealing had any meaning at all, it seemed there was a clear duty on Mr Dungate to place the relevant facts before the banks.

He was an employee of Hodge until October 1980. Any liability till then rested with Hodge. Any liability under subsequent loan transactions must rest with Skandia. If Mr Dungate acted in breach of duty during his employment with Skandia, it did not matter whether he acquired the relevant knowledge before or after commencement of his employment with Skandia.

The most contentious issue in relation to that duty of utmost good faith was whether the insured's only remedy was avoidance of the contract and return of the premium. No claim had come before the courts in which a claim for damages for breach of the duty of utmost good faith had been put forward.

The question whether an action for damages lay must be considered from the point of view of legal principle and policy. Once it was accepted that the principle of the utmost good faith imposed meaningful reciprocal duties it seemed anomalous that there should be no claim for damages for breach, where that was the only effective remedy. If the only
premium that led to an im-
relationship between insurer and insured. An order for return of the premiums would be derisory in relation to the true loss.

Justice and policy considerations combined required the court to rule that in principle an insured could claim damages from insurers for loss suffered by him as a result of their breach of the obligation of the utmost good faith.

(b) The common law duty of care

In *Anns v Merton LBC [1978] AC 728* Lord Wilberforce said that in order to establish a duty of care "First one has to ask whether ... there is a sufficient relationship of proximity or neighbourhood ... Secondly ... whether there are any considerations which ought to negative or to reduce or limit the scope of the duty ..."

Those observations were still a useful guide. They emphasised that a plaintiff in order to establish a duty in a novel situation had to establish neighbourhood or proximity and then to satisfy the court that it was just and reasonable that a duty of care of particular scope should be held to exist.

In order to establish liability it was insufficient that it was in the insurers' reasonable contemplation that failure to disclose Mr Lee's dishonesty might result in financial harm to the banks. A bare possibility was not enough.

It must be shown that it was reasonably foreseeable by the insurers that there was a manifest and obvious risk that failure to disclose would lead to financial loss by the banks.

It was reasonably foreseeable that if Mr Lee's dishonesty was not disclosed to the banks, there was a manifest and obvious risk that the banks might suffer financial loss as a result of his future dishonesty. That was the foresight which a reasonable underwriter would have had. The banks had satisfied the requirement of proximity and neighbourhood.

A *prima facie* duty of care did not arise. It was necessary to consider the factors which militated in favour of holding that a duty existed were, first that such a decision would be just as between the parties. Secondly, the existence of a duty of care was consistent with the requirement of good faith and fair dealing which ought to govern the relations between insured and insurer. Thirdly, it was reinforced by the contemporary market understanding of an underwriter's duty in such circumstances.

Lastly, one could not lose sight of the fact that commercial fraud was rampant. If a duty were held to exist it might help to expose and eradicate fraud in the London insurance market.

For those reasons it was held that a duty of care did exist.

Breach of the insurers' duty of utmost good faith was established, as was a breach of their common law duty of care.

For Chemical Bank: Nicholas Strauss QC (Slaughter and May).
For the other banks: John Griffiths QC, Mark Hapgood and Hodge Malek (Hopkins and Wood).
For the insurers: Richard Yorke QC, Crawford Lindsay and CA Cory-Wright (Herbert Smith and Co).

Rachel Davies
Barrister

LONDON RECENT ISSUES

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Issue Price p	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price p	+ or −	Net Div.	Times Cov'd	Gross Yield	P.E. Ratio
§43	F.P.	—	59	49	‡Broad St. Grp.10p	51	......	b1.1	2.2	3.0	21.1
§130	F.P.	17/10	196	152	‡Creighton Labs 20p	195	−1	u3.7	2.2	2.7	23.6
160	F.P.	24/10	146	123	Euro Home Products 5p	143	......	R4.25	2.5	4.2	11.1
§105	F.P.	16/10	112	103	‡Eve Construction	105	−1	u4.5	3.2	6.0	7.4
§135	F.P.	24/10	166	145	‡Great Southern 10p	166	+2	R5.2	2.2	4.4	14.2
[illegible]	F.P.	—	28	27	Group Development	28	......	—	—	—	—
105.25	F.P.	—	108	104	India Fund £1	108	......	—	—	—	—
§135	F.P.	24/10	190	145	‡Local London Group 5p	190	......	W5.0	1.8	3.7	21.4
110	F.P.	—	124	119	Marlbor'gh Tech Man 5p	124	......	R2.70	3.1	3.1	12.5
§105	F.P.	24/10	154	133	‡Miller & Santhouse 5p	154	+4	u2.25	2.4	2.1	28.8
§75	F.P.	24/10	79	73	‡Newage Trans 5p	73	−2	R3.5	2.5	6.8	8.3
§25	F.P.	22/10	26½	25½	Nth of Scotland Inv 10p	26½	......	—	—	—	—
§90	F.P.	—	90	88	‡Radamec Group 5p	90	......	R1.28	5.7	2.0	12.3
135	F.P.	24/10	163	151	Sandell Perkins 10p	163	......	u3.8	2.9	3.3	15.0
—	F.P.	3/10	18½	9	Sutcliffe Speak Wrnts	11	−1	—	—	—	—
100	50	—	102	82	TSB	84½	−1	W4.26	3.1	4.5	10.3
[illegible]	F.P.	—	385	335	‡Utd. Trust & Credit £1	343	......	u24.0	2.1	5.7	11.9
125	F.P.	10/10	156	136	Yorkshire TV	146	......	R6.25	2.4	6.0	9.9

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price £	+ or −
§	Nil	—	1½pm	½pm	Cowlach Finance 11½% Cnv. Uns. Ln. 1996	1pm	......
§100	£10	—	12½	11¼	East Worcs. Water 12½% Red. Deb. 94-96	12½	+½
§100	£10	—	10¾	10½	Essex Water 11¼% Red. Deb. 2002-04	10¾	—
§	Nil	14/11	7ppm	6ppm	‡Goodhead Print 7% Cnv. Red. Prf	7ppm	—
§100	£10	15/5	9½	3½	Mid-Sussex Water 11% Red Deb 2012-16	4¾	+½
§99.937	£25	24/10	25¾	22¾	Nationwide 3⅞% IL Ln. 2021	24½	−½
—	F.P.	—	100⅛	99	Do 10⅜% 21/9/87	99⅞	+⅛
96.645	£25	8/1	24¾	17	Scot. Met. Prop. 10¼% 1st Mort. Deb. 2016	19½	......
—	F.P.	—	113p	104p	Scott. & Newcastle 7% conv. Pref. £1	113p	......
—	F.P.	3/10	98p	96p	Sutcliffe Speak 9½% Red. Cum. Prf.	98p	+2
¶¶	F.P.	24/10	122p	115p	WCRS 5.5% Cnv. Cum. red. Pref. 1999	117p	......
¶¶	F.P.	—	95p	92½p	Walker (C & W) 6½pc Cnv Cum Red Pref	94p	......
¶¶	F.P.	—	104p	101p	Williams Hldgs 5¾% Cum Cnv Prf	101p	......

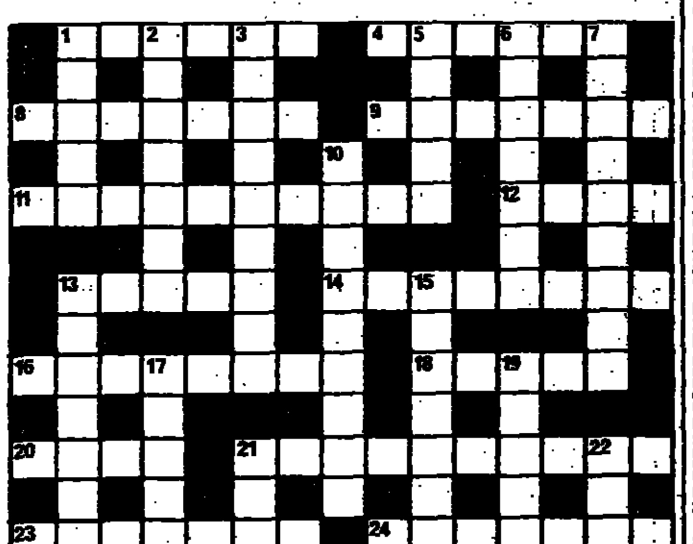
"RIGHTS" OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1986 High	1986 Low	Stock	Closing Price p	+ or −
125	Nil	21/11	18pm	8pm	Appleyard Group	15pm	−3
140	Nil	—	24pm	21pm	Barro Inds. 20p	23pm	......
180	Nil	—	9pm	3pm	Beazer (C.H.) 10p	3pm	−3
120	Nil	21/11	22pm	16pm	Brent Chemicals 10p	18pm	......
70	Nil	13/11	66pm	63pm	Bromsgrove Inds	64pm	......
195	Nil	24/10	18pm	3pm	Bucol	4pm	......
71	Nil	—	6pm	6pm	Burns Anderson 10p	6pm	......
$1.80	Nil	26/11	12½pm	4pm	E.R.I.C.	5pm	+1
75	Nil	11/11	30pm	24pm	Ind. Fin. & Inv. Corp.	26pm	−1
85	Nil	—	1½pm	1pm	Lawrence (W)	1½pm	+½
30	Nil	25/11	9pm	6pm	Leisuretime Intl.	6pm	......
215	Nil	24/10	8pm	2pm	New Court Nat.Res. 5p	8pm	+1
5	Nil	21/11	1pm	½pm	Platignum 5p	½pm	−½
140	Nil	13/11	26pm	13pm	Tilbury Group	26pm	+2
50	Nil	19/11	7pm	5pm	Thurgar Bardex 10p	6½pm	+1½
60	Nil	21/11	13pm	9pm	United Spring 10p	9pm	......
60	Nil	11/11	11pm	8pm	Western Selection 20p	9pm	......

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. F Forecast dividend cover on earnings updated by latest interim statement. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma Figures t Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ‖‖ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ▮ Allotment price. ‡ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement.

FT CROSSWORD PUZZLE NO. 6,150

ORIGAMI



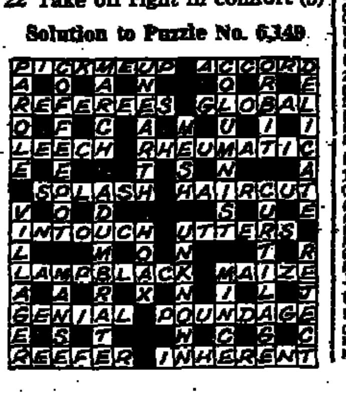
ACROSS

1 Put up with stranger under direction (6)
4 Time to ring Lincoln back, there's a little life (6)
8 Academy cuts each point and it annoys head (3, 4)
9 Enigmatic name, E. Elgar—expand (7)
11 It reminds one of me and mum or cook (10)
12 Not current coinage but backslang for a girl (4)
13 Point to the fifteenth of five and eleven (5)
14 Cover for creases after getting a duck and other items in cricket club (6)
16 The circle about rotter of a king (8)
18 Return of an age and place for gladiators (5)
20 To return to onomatopoeic example (4)
21 A left detainee in current opposition (5, 5)
23 Southern Crete's resort not known to many (7)
24 American goes into pub having good reason (7)
25 Army holds firm with city searches (6)
26 Ascetic from city with oriental following (6)

DOWN

1 Point Dave the other way, miss (5)
2 No girl twisted and died of rock (7)
3 Army vehicle right for trainee musician (9)
5 Note whether it's going up or down (5)
6 Show up French and a Norman for instance (7)
7 Get a right toff in a state (9)
10 Cash one in the day before, it could be instructive (9)
13 Vessels made for port? (9)
15 Horses, all in, toss convulsively (9)
17 On pitch, one nil, between Manitoba and New York (7)
19 Direction to move it about is tending to arouse passion (7)
21 It turns both ways (5)
22 Take off right in comfort (5)

Solution to Puzzle No. 6,149



AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS & INSURANCES

Whittingdale Unit Trust Managers
2 Honey Lane, London EC2V 8BT 01-606 9085/6

Short Dat Gilt Fd	67.9	69.0		—
U S Govmt Bond Fd	$0.514	0.516	−0.001	—

Windsor Trust Mngrs Ltd
83 Kingsway, London, WC2B 6SD 01-405 8331

Capital & Equity Tst	48.5	51.4	−0.1	7.43
Growth Trust	51.7	55.0	+0.3	2.25
Income Trust	53.5	57.0	+0.2	5.09

Wright Seligman Fund Managers Ltd
11 Blomfield St, London EC2M 7AY 01-588 0992

Growth Fund	68.5	72.0	—	2.90

Weekly dealing day Tuesday

The Yorkshire General Trust
Woodsome Pk, Fenay Bdge, Huddersfield 0484 602250

Y.G.T.	129.0	137.3	+0.9	3.14

INSURANCES

AA Friendly Society
(Investment Mngt M & G Inv Mngt Ltd)
PO Box 93 Cardiff CF1 4NW 0222 35542

AA Friendly Sy Aug 12		102.8	—	—

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

Prop. Ser. 1	206.9	217.8	—	—
Equity Ser. 1	100.8	106.2	−0.3	—
Prop. Acc. Ser 2	278.5	293.2	—	—
Equity Ser 2	109.6	115.4	−0.2	—
Selective Acc.	234.3	246.7	−0.3	—
Prop. Ser. 4	220.1	231.7	—	—
Equity Ser. 4	112.9	118.9	−0.2	—
Fixed Int. Ser. 4	176.5	185.8	—	—
Indexed Inv. Ser. 4	109.8	115.6	—	—
American Ser. 4	255.7	269.2	−0.5	—
High Inc. Ser. 4	285.0	300.1	−0.2	—
Japan Ser 4	240.4	253.1	−3.4	—

City of Westminster Assurance—Contd.

Far East Fund	222.2	234.4	−0.5	—
North American Fund	171.7	180.8	−0.4	—
Natural Resources Fund	148.1	155.9		—
Pension Managed Fund	376.8	396.7	+1.2	—
Pension Equity Fund	240.2	252.9	+0.7	—
Adventurous Mngd Fd	119.0	125.3	+0.7	—
Balanced Mngd Fd	117.0	123.2	+0.7	—
Conservative Mngd Fd	110.1	115.9	+0.1	—
European Fund	107.6	113.3	−0.1	—
International Fund	118.7	125.0	+3.1	—
S.U.N. Flagship Fd	124.6	131.2	−1.3	—

For other prices please telephone 0908 606101/660888

Clerical Medical/Fidelity International
Narrow Plain, Bristol BS2 0JH 0272 290566

Investment Funds

Mixed	133.4	140.5	+0.2	—
Equity	150.2	158.2	+1.0	—
Property	109.7	115.5	—	—
Gilt & Fixed Interest	108.1	113.8	−0.3	—
Indexed Securities	98.0	103.2	−0.2	—
Cash	107.9	113.6	—	—
North American	108.0	113.7	−0.3	—
Far East	132.7	139.7	−2.0	—
International	127.1	133.8	−0.1	—
Special Situations	144.6	152.3	+0.3	—
International Income	140.1	147.5	+0.4	—
American Income	117.9	124.2	−0.1	—
European	153.1	161.2	+0.9	—

Flexible Retirement Plan

Mixed	137.7	145.0	+0.1	—
Equity	143.9	151.5	+0.6	—
Property	115.3	121.4	+0.1	—
Gilt & Fixed Interest	114.3	120.4	+0.1	—
Indexed Linked	99.8	105.1	—	—
Cash	115.9	122.1	—	—
North American	113.0	119.0	−0.5	—
Far East	150.1	158.1	−3.1	—
International	135.9	143.1	−0.3	—
Special Situations	163.2	171.8	+0.4	—
European	182.2	191.8	+3.4	—

Executive Investment Pension Plan
Prices on October 8. Next dealings on Wednesday.

INSURANCE, OVERSEAS & MONEY FUNDS

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

Money Market Trust Funds

	Gross	Net	Gr Equiv CAR	Int Cr
Charities Aid Fndtn Money Mngmt Co Ltd				
Staple Hall, Stone Ct, Houndsditch, EC3 01-283 6461				
Call Fund	8.89	6.64	9.62	3-mth
7-day Fund	9.05	6.70	9.88	3-mth
The Charities Deposit Fund				
2 Fore Street, London EC2Y 5AQ 01-588 1815				
Deposit	9.50			3-Mth
The Money Market Trust				
63 Qn Victoria St, EC4N 4ST. 01-236 0952				
Call Fund	8.94	6.68	9.74	6mth
7-day Fnd	8.79	6.57	9.59	6mth
Oppenheimer Money Management Ltd				
66 Cannon St, EC4N 6AE. 01-236 1425				
Call Fnd	8.80	6.58	9.42	6-Mth
7-day Fund	8.96	6.70	9.99	6-Mth
Dollar	4.69	3.51	5.01	6-Mth

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int Cr
Adam & Co. plc				
22 Charlotte Sq, Edinburgh EH2 4DF 031-225 8484				
Full Service Cur Acc	9.25	6.80	9.82	Qr
Aitken Hume				
30 City Road, EC1Y 2AY. 01-638 6070				
Treasury Acc	9.25	6.91	9.99	Qr
Mth. Int. Chq.	9.25	6.91	10.04	Mth
Allied Arab Bank Ltd				
97-101 Cannon St, London, EC4N 5AD 01-283 9111				
High Int. Cheque Acc.	10.125	7.57	11.04	Mth
Bank of Scotland				
38 Threadneedle St, EC2P 2EH. 01-628 8060				
Money Mkt Cheque Acc.	9.30	6.95	10.11	Mth
Barclays Prime Account				
PO Box 125, Northampton 0604 252891				
High Int. Cheque	9.50	7.00	10.12	Qr
Benchmark Trust Ltd				
9 Henrietta Place, W1M 9AG. 01-631 3313				
Cap Chq Deposit Acc.	9.25	6.91	10.04	Mth
Charterhouse Bank Limited				
1 Paternoster Row, EC4M 7DH. 01-248 4000				
Sterling	9.50	7.10	10.33	Mth
U.S. Dollar	5.375	4.02	5.76	Mth
German Marks	4.00	2.99	4.27	Mth
Swiss francs	1.00	0.75	1.06	Mth
Japanese Yen	4.00	2.99	4.27	Mth
Citibank Savings				
St Martins Hse, Hammersmith Grove 01-581 1422				
Money Market Plus	Top rate	7.00	10.18	Mth
For other rates please 'phone our Rateline 01-882 0429				
Co-operative Bank Cheque & Save				
78-80 Cornhill EC3 01-626 6543				
£500-£2,500	6.69	5.00	7.18	Qr
£2,500 +	9.38	7.00	10.12	Qr
Dartington & Co Ltd				
Dartington, Totnes, Devon TQ9 6JE 0803 862271				
Money Mkt Acc.	9.50	7.10	10.30	Qr
Henderson/Bank of Scotland				
38 Threadneedle St EC2P 2EH 01-628 8060				
Money Mkt. Cheque Acc.	9.30	6.95	10.11	Mth
Legal & General (Money Mngrs) Ltd				
355 Euston Road, NW1 3AG 01-388 3211				
High Int Dep Acc	9.70	7.25	10.39	6-mth
Lloyds Bank PLC				
71 Lombard St, London EC3P 3BS 01-626 1500				
HighIntCheque Account	9.00	7.20	10.42	Qr
Lombard North Central PLC				
17 Bruton St, W1A 3DH 01-409 3434				
14-Day Notice	9.00	6.72	9.46	—
M & G/Kleinwort Benson				
M & G Hse., Victoria Rd., Chelmsford 0245 266266				
H.I.C.A. (£2,500+)	9.01	6.73	9.78	Daily
Midland Bank plc				
PO Box 2, Sheffield. 0742 20999 Ext 8655				
High Int Chq Acc.	9.03	6.75	9.75	Qr
£10,000 +	9.36	7.00	10.12	Qr
M.I.M. Britannia Ltd				
74-78 Finsbury Pavement, EC2A 1JD 01-588 2777				
Cater Allen	9.13	6.82	9.9128	—
NatWest Special Reserve Account				
41 Lothbury, London, EC2P 2BP 01-256 9993				
£2,000 to £9,999	9.25	6.875	9.94	Qr
£10,000 and above	9.375	7.00	10.12	Qr
Oppenheimer Money Mgmt Ltd				
66 Cannon St, EC4N 6AE 01-236 1425				
Money Mngt. Acct.	8.625	6.45	9.29	3-Mth
Phillips & Drew Trust Ltd				
120 Moorgate, London EC2M 6XP 01-628 9771				
High Int Chq Acc.	9.25	6.91	9.99	Qr
Provincial Trust				
30 Ashley Rd, Altrincham, Cheshire 061-928 9011				
High Int Chq Acc.	10.00	7.48	10.30	Mth
Royal Bank of Scotland plc				
42 St Andrew Sq, Edinburgh EH2 2YE. 031-557 0201				
Premium Account	9.37	7.00	10.15	Qr
Save & Prosper/Robert Fleming				
28 Western Rd, Romford RM1 3LB. 0708 66966				
H.I.B.A.	9.03	6.75	9.83	Daily
Tyndall & Co				
29-33 Princess Victoria St, Bristol 0272 732241				
Demand Acc	9.59	7.13	10.38	Qr
Monthly Acc	9.69	7.25	10.49	Qr
J. Henry Schroder Wagg & Co Ltd				
Enterprise House, Portsmouth 0705 827733				
Special Acc.	7.75	5.79	8.38	Mth
Over £10,000	8.00	5.98	8.66	Mth
Western Trust & Savings Limited				
The Moneycentre, Plymouth PL 1SE 0752 224141				
High Int Chq Acc.	10.25	7.66	11.10	Qr
Wimbledon & South West Finance Co Ltd				
114 Newgate St, London EC1A 7AE. 01-606 9485				
High Int Cheque Acc.	11.0	8.22	11.94	Qr

NOTES—Gross: rate to those exempt from composite rate of tax. Net: actual rate after deduction of CRT. Gr Equiv CAR: Gross equivalent to basic rate taxpayers—compounded annual rate. Int Cr: frequency interest credited.

NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % (shown in last column) allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales. a Offered prices include all expenses. b Today's prices. c Yield based on offer price. d Estimated. g Today's opening price. h Distribution free of UK taxes. p Periodic premium insurance plans. s Single premium insurance. x Offered price includes all expenses except agent's commission. y Offered price includes all expenses if bought through managers. z Previous day's price. ¶ Guernsey gross. ‡ Suspended. ♦ Yield before Jersey tax. † Ex-subdivision. ‡‡ Only available to charitable bodies. ♦ Yield column shows annualised rates of NAV increase. xd ex dividend.

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	30
Amstrad	23
BAT	36
BOC Grp	28
BSR	11
BTR	28
Babcock	17
Barclays	45
Beecham	40
Blue Circle	56
Boots	22
Bowaters	38
Brit Aerospace	45
Brit. Telecom	17
Burton Ord	28
Cadburys	17
Charter Cons	22
Comm Union	28
Courtaulds	26
FNFC	17
Gen Accident	75
Gen Electric	17
Glaxo	85
Grand Met	34
GUS 'A'	85
Guardian	75
GKN	32
Hanson Tst.	16
Hawker Sidd	48
ICI	55
Jaguar	38
Ladbroke	32
Legal & Gen	24
Lex Service	28
Lloyds Bank	38
Lucas Inds	52
Marks & Spencer	18
Midland Bk	44
Morgan Grenfell	30
NEI	11
Nat West Bk	48
P & O Dfd	45
Plessey	18
Polly Peck	16
Racal Elect	16
RHM	20
Rank Org Ord	45
Reed Intnl	75
STC	16
Sears	12
TI	42
Tesco	32
Thorn EMI	48
Trust Houses	15
Turner Newall	18
Unilever	120
Vickers	40
Wellcome	17
Property	
Brit Land	16
Land Secs	30
MEPC	32
Peachey	24
Oils	
Brit. Oil & Min	2½
Brit Petroleum	48
Burmah Oil	30
Charterhall	4
Premier	3½
Shell	55
Tricentrol	11
Ultramar	18
Mines	
Cons Gold	48
Lonrho	24
Rio T Zinc	58

A selection of Options traded is given on the London Stock Exchange Report Page.

COMMODITIES AND AGRICULTURE

Italian deal underlines SA coal price problems

BY GERARD McCLOSKEY

FUEL COSTS for many of Europe's major electricity utilities are likely to tumble over the next 12 months following a contract agreement between the Italian power company ENEL and two South African coal suppliers, BP and Gencor. The agreement on 1987 tonnage takes international coal prices to new lows and reflects the extreme pressure on South African coal in world markets, in spite of the decision of EEC ministers last month not to ban imports of the republic's coal.

The new contract price of $24 a tonne, fob the South African exporting terminal at Richards Bay, is down from $27.50 for current deliveries. Agreement was reached on the eve of the EEC foreign ministers' sanctions meeting in mid-September in an attempt to blunt the sanctions impact on Italian electricity costs. ENEL is the biggest buyer of South African coal in Europe.

What made an early agreement crucial for both BP and Gencor was that their sales of 500,000 tonnes apiece were annually agreed and therefore especially vulnerable to sanctions. The remainder of the ENEL/South African trade was based on long term contracts and merely repriced annually. However, all the Republic's coal trade with Italy will at least have to match these new price levels. Indeed, the price of $24 may not itself stick, since it is up to $4 a tonne higher than current spot prices from South Africa. Some European traders predict that the ENEL main Board will not confirm the prices but will insist instead that its coal buyers go back to the negotiating table.

Even at these levels, assuming that other suppliers agree to match them, ENEL will wipe nearly $16m off its fuel costs. Altogether the company buys 4.5m tonnes a year from South Africa.

However, any attempt by the mining houses to establish this new level as a European benchmark for 1987 will be short lived. In Spain—like Italy a growth market for coal imports—the state coal importer Carboex has asked for 1987 offers at $20 a tonne. And in the Far East a recent despatch to Taiwan is believed to have been agreed below that psychological barrier.

The squeeze on prices, which has brought barge lots of coal in Rotterdam down from $39 a year ago to just $30 last week, resulted from three factors: continuing oversupply, particularly from South Africa; dropping heavy fuel oil prices; and the gathering resistance to purchases of the Republic's coal.

In the last 12 months, decisions by the French, Danish and, most recently, the US Governments to add their names to the list of countries refusing to buy South African has effectively lopped 10m tonnes off steam coal exports—38.5m in 1985.

The Danes, who purchased 3.5m tonnes last year, will cease all trade with South Africa at the end of November.

A decree by the then French Prime Minister, Mr Laurent Fabius, 11 months ago that no contract renewals would be permitted reduced last year's trade of 6.3m tonnes by around 5m tonnes (although 30,000 tonnes a week are believed to be coming into France from Belgium). It is expected that the remaining South African French-bound tonnage will be blocked at the end of this year.

Last month's action in the US Congress when it over-rode President Reagan's veto of a tough sanctions Bill will see an end to an 800,000-tonne annual contract between Gulf Power and the Transvaal Coal Owners Association.

But while it may appear that power companies buying from South Africa have been the winners in the cost-cutting stakes, some exceedingly low prices are being reported for Australian coal. Recent deliveries to Denmark have almost all been below US$32 and at the end of last week came a report that 500,000 tonnes of 1987's deliveries to the power company had been agreed below $30 cif Denmark. (Current ocean freight rates from Australia are around $8 a tonne). If this price is confirmed it will be seen as the first effect of the recent easing of controls on coal contracts by the Australian Government. Last month Canberra lifted its coal contract review mechanism which, critics claim, had delayed negotiations to such a point in one or two instances to have resulted in the loss of an order.

To this downward pressure on prices has been added an additional push in the last few months, resulting from a greater availability of Soviet coal and, very recently, of coal from the lowest-cost producer of them all, China.

While the buyers will be rubbing their hands with glee at the prospect of yet lower prices, many of the producers will be counting the cost of all the damage. In Australia few New South Wales mines can compete at current levels, while the low-cost Queensland mines can still prosper.

US steam coal exports appear to be shrinking back, unable to make a return at today's prices, while Colombian coal, already making a loss at delivered prices, some of which are little under $40, faces a very bleak 1987.

Nor is the low cost of South African production immune from current price structures. The risk there is that the rising price of gold could push the value of the rand from below $0.40 in the early summer to $0.50, producing a real squeeze in the Republic coal operations. In Durban, a far smaller and more costly operation than Richards Bay, there is already talk of some shippers being unable to move coal profitably beyond January should the rand continue to strengthen.

Gerard McCloskey is editor of the FT International Coal Report.

IMPORTS OF SOUTH AFRICAN COAL IN 1985 ('000 tonnes)

Japan	7,441
France	6,432
Italy	6,376
Denmark	3,454
W. Germany	6,432
Spain	2,243
Hong Kong	2,242
Israel	2,167
Belgium/Lux	2,048
S. Korea	1,600
Taiwan	979
US	824
Netherlands	819
UK	370
Greece	181
Switzerland	12
Portugal	92
Ireland	70

Source: International Coal Report

NZ offloads surplus butter

BY DAI HAYWARD IN WELLINGTON

NEW ZEALAND has successfully offloaded most of its butter surplus in a deal to sell 50,000 tonnes of butter oil to Brazil. This will require 60,000 tonnes of butter from the stockpile, which previously stood at 80,000 tonnes.

At the same time the NZ Dairy Board's efforts to persuade farmers to cut milk production are making progress. More than 500 farmers have joined a board scheme to cut the size of their herds. This should reduce output by about 1.5 per cent—4m to 5m kg this season.

Farmers who join the scheme are paid 70 cents (24p) a kg for the difference between last year's production and this year's. The price paid for butterfat at present is NZ$2.25 a kg.

The scheme is funded by dairy farmers themselves through levies paid to the Dairy Board. However, the drop in production will save the board about NZ$2.5m because it will not have to buy the surplus butter at near market prices to add to the stockpile.

The sale to Brazil was at a special price, but in line with Gatt agreements.

The Board has also made a $50m deal to sell another 25,000 tonnes of milk products to Brazil in a counter trade deal. The Board has swapped 4,000 tonnes of NZ dairy products for a consignment of Brazilian frozen orange juice which will be sold in New Zealand by agents of the Dairy Board.

The NZ butter oil and dairy products will help fill a shortage created by the severe drought in Brazil over the past few years.

In another deal, NZ will sell between 6,000 and 10,000 tonnes of butter each year for two years to Poland. To clinch the sale, NZ agreed to an "offset purchase deal" in which it will take an equivalent value of Polish skim milk powder. The Board will dispose of the Polish skim milk powder through its international marketing network.

As part of its effort to increase consumption of NZ dairy products on international markets, the NZ Dairy Board's American subsidiary — NZ Milk Products — has acquired the US cheese marketing company, Otto Roth and Co. The company will gradually take more of its products from New Zealand although these are restricted by quotas. It will also endeavour to increase sales of NZ's soft ripened cheeses which have no quota restriction in the US.

In the past five years, sales of NZ dairy products to Saudi Arabia have grown from 1,400 tonnes of milk fat, worth NZ$35m, to 11,000 tonnes, worth NZ$225m. The products include processed cheeses, butter and canned milk powder.

To help boost sales further, the NZ Dairy Board will open a permanent office in Jeddah.

Butler to resign as EEC farm leader

By Our Commodities Staff

SIR RICHARD BUTLER, who retired as president of Britain's National Farmers' Union in February, is to step down from the presidency of Copa, the European farmers' organisation at the end of the year.

Announcing his planned departure at the Copa Praesidium in Brussels, Sir Richard said: "I am sorry that I have had to take this decision due to my many other commitments."

To the surprise and consternation of the UK farming industry Sir Richard was appointed in June to the chairmanship of Agricola UK, a subsidiary of the Ferruzzi Group of Italy which is bidding for S. & W. Berisford, owner of British Sugar.

Since the announcement of that appointment Sir Richard has withdrawn his candidacy for the chairmanship of Food from Britain, the government-sponsored marketing organisation.

● THE INTERNATIONAL Commodities Clearing House (ICCH) review committee hopes to complete an examination of the ICCH's future activities early next year, Mr John Barkshire, the ICCH chairman said yesterday, reports Reuter. The committee is looking at several options including the separation of ICCH clearing and guarantee services, he said.

● COFFEE stocks in European warehouses are at a higher level than at the same time last year, according to Societe Generale de Surveillance, the international private inspection and audit company. It put stocks in Amsterdam at 30,000 tonnes, in Rotterdam at 130,000 tonnes, in Le Havre at 30,000 tonnes in Trieste at 40,000 tonnes and in Hamburg/Bremen at around 50,000 tonnes.

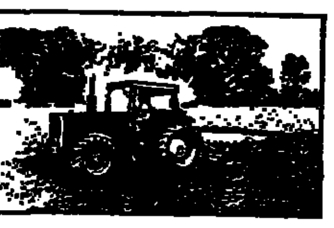
● THE ARAB world could face severe food shortages by the 1990s, straining budgets and exposing poor countries to the influence of food producer states, Sheikh Saad Abdullah Al-Sabah, the Kuwaiti Prime Minister, warned at the opening of a conference on the development of Arab food industries in Kuwait yesterday. He said 45 per cent of acute food shortages forecast by the end of the current decade would be felt in the Middle East and North Africa.

● MECHANISMS must be found to improve the depressed world sugar market, Mr Edouardo Latorre, president of Geplacea, the Latin American and Caribbean sugar exporting countries organisation, said in Maceio, Brazil, yesterday, reports Reuter. He was speaking as representatives of the 21 Geplacea members prepared to being discussions on ways to boost international sugar prices, which are well below the production costs of most producers in the region. Mr Latorre blamed US and EEC export and subsidy policies for the price depression.

LONDON METAL EXCHANGE WAREHOUSE STOCKS
(Changes during week ending last Friday)

	(tonnes)
Aluminium	+1,075 to 172,975
Copper	+4,275 to 145,925
Lead	−3,950 to 34,675
Nickel	−150 to 8,548
Tin	−365 to 43,980
Zinc	−2,950 to 22,600
	(ounces)
Silver	unchanged at 25,214,000

Easing the strains of autumn



FARMER'S VIEWPOINT
By John Cherrington

MICHAELMAS DAY, September 29, is the traditional start of the farming year in most of the South of England and was, incidentally, the date I took my first farm tenancy. It is a convenient date in that harvest should have finished and the land, which in those days was kept in a fairly strict rotation, should have been made ready for sowing.

My mentor of those days, my adopted Uncle Jack, did not really hold with September 29 and based his farming operations on what was called Old Michaelmas, October 11 — a relict, I suppose, of the old calendar. So he instructed me to start planting wheat on October 12, a date which I have remembered ever since, in spite of a whole lot of advice to the contrary.

I had not been idle through the intervening weeks, however.

There is a fashion for early sowing of almost every crop and for several years farmers have been adding to the number of autumn sown varieties. I joined this trend myself and for the last few autumns have been struggling to get as much planted as I could.

This means that the combines are followed into the fields by cultivators, sprayers and the like—trying to kill off the annual and perennial weeds. It is a time of pressure for everyone. The result on my own farm was that it was fast becoming a mess. I have a particularly nasty weed called onion couch which was taking over some of the more intensively farmed fields.

This particular weed, also known as bulbous oat grass, is characterised by a bulb-like base to the stems, which can reproduce themselves with great speed, particularly in lighter soils. Their seeds are very viable too and it is the only weed I know which can attack the farmer from each end. The seedlings could be dealt with quite easily, but the bulbs were very persistent. The increasing use of autumn sowing meant that the bulbs could thrive in the soil for the next nine or 10 months, during which time they were able to feed on all the fertiliser poured on the crop.

In the end I found that the only way to kill the bulbs was to let them go on lying after harvest in the undisturbed and unburnt stubble until they grew a sufficiency of leaf. Then these were sprayed and a large proportion of the bulbs were killed. This effectively reduced the quantities of autumn cereals I planted, and these had to be replaced by spring sown crops. This of course increases the spring work but then the days are getting longer then and there seems to be time to do much more.

Two years ago I gave up sowing winter barley in favour of returning to spring sown varieties. The great advantages claimed for winter barley were that it yielded better than spring-sown varieties and that coming earlier to harvest, usually in late July, it spread the harvest. The last point is true, but I never found that under my conditions it yielded as well as it should. It cost more to grow because it needed more inputs of fertiliser and chemicals and was very subject to drought stress.

Having got rid of the winter barley I lost the advantage of being able to sow oilseed rape, which should be planted in August. Instead I have been growing a spring break crop. First I tried peas, which seem to be a highly variable crop. Some years they do well but in others they are dreadful. So this spring I planted about 50 acres of beans. They are cheap to grow, needing little fertiliser and no nitrogen. The problem here is that they do not seem to ripen very quickly and in the end I sprayed them with a dessicant to kill their growth.

My other autumn hang-up used to be putting in the next grass field for the sheep. I find it essential to have a grass break in the rotation and in early days used to prepare for it by undersowing the previous barley or oat crop, which was spring sown. The modern trend was to sow it in the autumn after harvest. Undersown grass was sometimes smothered by the cereal but last autumn all my grass seed died in the drought in October.

So this last spring I sowed it under barley and have a very good stand, helped of course by the dismally wet weather in the summer. I shall use it to fatten off the last of my lambs.

I have also managed to avoid a good deal of crop admixture.

A major problem these days if you follow wheat with winter barley say, is that there is insufficient time to kill the wheat seeds which germinate after they have been shed to the ground during harvesting. They can contaminate the next crop quite badly and make it difficult to maintain the purity of the sample.

A dry time like the present means there will be a great many ungerminated seeds just waiting for the rain.

All this might sound as though I am making excuses for lazy farming, and I certainly would never advise others to try it, particularly on heavy lands which are difficult to work in the spring. But I am quite happy with the result which may of course be a symptom of my advanced years. It makes for rather easier farming and when my seed drill started work on October 12 I am sure that Uncle Jack would have said I was showing sense at last.

LONDON MARKETS

LEAD was again the star performer on the London Metal Exchange yesterday as the cash position, which gained nearly £30 last week, advanced another £9 to £314.50 a tonne, a fresh 17-month high. The bullish fundamental picture and concern about the possibility of a resumed strike at Australia's Broken Hill Mines when the interim settlement reached in July runs out next week continued to underpin the market. But yesterday's rise was also influenced by a sizeable cut in LME warehouse stocks last week. Other LME metals finished little changed on the day. The recent volatility of the coffee market continued with the January position regaining £45 of Friday's £75 fall. Reports of harvesting delays in Colombia were mentioned as a possible cause for the rally. LME prices supplied by Amalgamated Metal Trading.

REUTERS INDICES

Oct. 13	Oct. 10	M'th ago	Year ago
1591.6	1591.2	1507.8	1706.1

(Base: September 18 1931=100)

DOW JONES

Dow Jones	Oct. 10	Oct. 9	M'th ago	Year ago
Spot	122.46	122.36	—	118.62
Fut	132.75	132.70	—	117.46

(Base: December 31 1931=100)

MAIN PRICE CHANGES

In tonnes unless otherwise stated.

[illegible]

ALUMINIUM

	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	815.5-6.5	−1.0	817/815
3 months	817-7.5	+1.75	820/816

COPPER

Grade A	Unofficial close	+ or −	High/Low
Cash	917-5	−0.75	918/917.5
3 months	941-1.5	+1.0	944/940.5
Standard			
Cash	892-3.5	+1.75	894/894
3 months	917-9	+0.5	919/918

LEAD

	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	314-5	+9.0	318.5/315
3 months	308-8.5	+5.0	312/306

NICKEL

	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	2572-5	−1.0	2577/257
3 months	2632-5	−5.0	2635/2620

TIN

KUALA LUMPUR TIN MARKET: Close 14.11 (14.10) ringgit per kg. Up 0.01 ringgit per kg.

ZINC

High grade	Unofficial close (p.m.) £ per tonne	+ or −	High/Low
Cash	596.5-7.5	+1.0	601/598
3 months	621-1.5	+4.75	623/618

GOLD

GOLD BULLION (fine ounce) Oct. 13

Close	$432-432½	(£301½-303)
Opening	$432½-433½	(£302½-303½)
M'n'g fix	$431.40	(£300.837)
Aft'n'n fix	$432.50	(£301.674)

GOLD AND PLATINUM COINS

Kr'g'rnd	$430-432	(£299¾-301¼)
½ Krug	$226½-227½	(£157¾-158½)
¼ Krug	$115-116	(£80¼-80¾)
1/10 Krug	$46¼-47	(£32¼-32¾)
Mapleleaf	$443½-446½	(£309¼-311¼)
Angel	$441-446	(£307½-310¼)
1/10 Angel	$45¾-50¾	(£31¾-35½)
New Sov.	$103-105	(£71¾-73¼)
Old Sov.	$102-103½	(£71-72¼)
$20 Eagle	$490-530	(£341½-369½)
Noble Plat	$599½-610½	(£418-425½)

SILVER

Silver was fixed 1.8p an ounce higher for spot delivery in the London bullion market yesterday at 394.5p. US cent equivalents of the fixing levels were: spot 565.3c, up 4.9c; three-month 573.55c, up 6.2c; six-month 581.65c, up 5.2c; and 12-month 598c, up 6.2c. The metal opened at 395½-397p (565-567c) and closed at 393½-395p (564-566c).

SILVER per troy oz	Bullion Fixing Price	+ or −	L.M.E. p.m. Unoffic'l	+ or −
Spot	394.50p	+1.80	393.75p	+8.85
3 months	404.95p	+2.10	403p	+0.65
6 months	415.55p	+1.85	—	—
12 months	436.60p	+2.55	—	—

LME—Turnover: 14 (5) lots of 10,000 ounces.

Three months high 404p, low 402p, final kerb 402-4p.

COFFEE

After a weak New York close, London was due to open £70 lower. Good commission house buying on the opening rallied levels which were trading almost unchanged by mid-day. New York could not match London's steady opening and levels gave way to test recent lows. With the lows breached in light volume but without any follow-through, nervous shorts began to cover. Light trade buying appeared and values quickly made an impressive rally, reports Drexel Burnham Lambert.

COFFEE	Yesterday close	+ or −	Business Done
Nov	2230-2235	+30.0	2238-2145
Jan	2220-2225	+45.0	2200-2115
Mar	2160-2165	+46.5	2170-2080
May	2145-2150	+40.0	2150-2085
July	2130-2150	+47.5	2130-2085
Sept	2130-2170	+62.5	2100
Nov	2130-2160	+57.5	—

Sales: 8,731 (7,269) lots of 5 tonnes.

ICO indicator prices (US cents per pound) for October 10: Comp daily 1979 160.16 (169.39); 15-day average 178.04 (177.76).

POTATOES

Continuing fair weather and unhindered harvest progress, with promising initial yield indications, brought further selling interest onto the market. Values fell immediately upon opening and, apart from the odd short-lived rally, came under pressure throughout the day. In good volume losses of over £8.00 were registered and the market closed on a weak note, reports Coley and Harper.

COCOA

After opening steadier than the dues, futures were locked in a £13 range and closed virtually unchanged from the previous close. Physicals were neglected by both producers and consumers with only light second-hand trading for the nearby positions noted, reports Gill and Duffus.

SOYABEAN MEAL

[illegible]

GRAINS

Wheat eased in early trading, with commission house selling a main feature. Values rallied on aggressive mixed buying from shipper and consumer sources, reports T. G. Roddick.

RUBBER

PHYSICALS—The London market opened slightly steadier, found little interest at the lower levels and closed easier, reports Lewis and Peat. Closing prices (buyers): Spot 69.00p (same); Nov 69.75p (66.50p); Dec 66.75p (66.50p). The Kuala Lumpur fob price (Malaysian cents a kilo): RSS No 1 223.5 (224.0) and SMR 20 211.0 (same). FUTURES—Index 677. Nov 661-671, Dec 663-673, Jan/Mar 651-671, April/June 662-680, July/Sept 664-680. Sales: Nil.

COTTON

LIVERPOOL—Spot and shipment sales for the week commencing October 6 amounted to 436 tonnes against 510 tonnes in the previous week. Moderate trading developed in Colombian, Israeli, Turkish, Indian, Egyptian and West African varieties.

SUGAR

LONDON DAILY PRICE—Raw sugar $137.50 (£94.00), up $1.50 (down £1.00) a tonne for October-November delivery. White sugar $184.00, unchanged.

FREIGHT FUTURES

The market drifted lower, continuing Friday's weakness prompted by lower rates, reports Clarkson Wolff.

TEA

At the London tea auction there were 28,699 packages on offer in the landed sale. There was a marked improvement in demand. Brighter Assams sold readily, though plainer were irregular, while plainer mediums were a strong feature and sometimes gained 5-10p. Bangladesh teas came in for keen competition at dearer rates. Best East Africans received fair support but prices were generally lower, while mediums ruled firm to dearer. Central Africans continued to strengthen and were again several pence dearer. Ceylons met good demand and the majority closed 5-10p higher apart from plainer brokens which were about steady. Quotations: quality 180p (195p nominal); medium 156p (165p); low medium 130p (128p).

US MARKETS

FOLLOWING A mixed morning, coffee values edged sharply higher as Friday's lows failed to be breached, reports Heinold. Fundamentally, the market continued to show concern about weather in Brazil as further dry weather was expected this week. Generally, trading was extremely slow due to observance of Yom Kippur and Columbus Day. The main factor to support the precious metals was the particularly weak US dollar although it was also speculated that the summit deadlock in Iceland would turn investors towards gold, silver and platinum. New York cotton futures opened limit up and stayed there in speculation that the frost and cold weather in the Texas high plains would further reduce cotton production.

NEW YORK

[illegible]

CHICAGO

[illegible]

MEAT

MEAT COMMISSION—Average fatstock prices at representative markets. GB—Cattle 93.28p per kg lw (−0.52). GB—Sheep 126.01p per kg est dcw (+0.76). GB—Pigs 76.48p per kg lw (−1.60).

OIL

The petroleum products markets were generally quiet and stable. Soviet Union gas oil prices weakened. Fuel oil prices continued to slide in North West Europe. Crude oil was quiet at a virtual standstill. December Brent sold at $14.20 but was discussed 20c lower towards the London close. November WTI opened 3c up on Nymex but traded 40c down by 1.30 pm EDT—Petroleum Argus, London.

GAS OIL FUTURES

[illegible]

HEAVY FUEL OIL

[illegible]

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar and pound drift down

THE DOLLAR and sterling weakened in quiet trading. Many US banks were closed for Columbus Day and this limited market volume. There was no strong reaction to the collapse of the summit talks between the US and Soviet Union at the weekend. The main factor influencing the foreign exchanges remained the comment on Friday by Mr Claus Koehler, a director of the Bundesbank, when he said intervention was not aimed at reversing the dollar's downward trend, but merely slowing the decline.

Intervention by the Bundesbank to buy $3m at the Frankfurt fixing was regarded as too small to indicate that the central bank has serious intentions about pushing the US currency higher.

The dollar fell to DM 1.9785 from DM 1.9865, the lowest level since January 1981; to SFr 1.6140 from SFr 1.6180; to FFr 6.4850 from FFr 6.5075, the lowest since June 1982; and to Y154.25 from Y154.40.

On Bank of England figures the dollar's index fell to 109.0 from 109.2.

STERLING—Trading range against the dollar in 1986 is 1.5535 to 1.3700. September average 1.4711. Exchange rate index fell 0.1 to 67.5, compared with 76.1 six months ago.

Sterling drifted lower as dealers waited for news from the Opec meeting in Geneva. There was also some nervousness that yesterday's meeting of EEC finance ministers might produce news about the pound joining the EMS exchange rate mechanism. This proved unfounded but the market continued to hope for guidance on the pound from Thursday's speech by Mr Nigel Lawson, Chancellor of the Exchequer, at the Mansion House.

Sterling fell to DM 2.8375 from DM 2.8475; to SFr 2.3150 from SFr 2.32; to Y221.25 from Y221.50; and to FFr 9.3025 from FFr 9.33.

D-MARK—Trading range against the dollar in 1986 is 2.4710 to 1.9785. September average 2.0486. Exchange rate index 142.5 against 134.0 six months ago.

The D-Mark rose against the dollar in Frankfurt, in spite of light intervention by the West German Bundesbank. The Bundesbank intervened at the Frankfurt fixing for the first time since November 12, 1985, when the central bank sold the US currency, as part of the Group of Five agreement to push down the value of the dollar. Yesterday the Bundesbank bought $3m at the fixing, when the dollar fell to DM 1.9813 from DM 2.0036. This was the lowest fixing level since January 12, 1981.

JAPANESE YEN—Trading range against the dollar in 1986 is 202.70 to 152.35. September average 154.67. Exchange rate index 215.0 against 195.2 six months ago.

The yen weakened in Tokyo, reacting more to expectations that Europe would buy the dollar later in the day, on nervousness after the failure of the Reykjavik summit, rather than to another record Japanese trade surplus. Fears of an increase in East-West tension led to short covering, and buying of the dollar, pushing the US currency up to Y154.80 at the close in Tokyo, compared with Friday's New York close of Y154.45, and Thursday's Tokyo close of Y154.25. In September Japan's trade surplus rose to a record $8.92bn from a downward revised $7.48bn in August, and from $4.58bn a year ago, but in yen terms the year-on-year rise was only to Y1,381bn from Y1,100bn. The fall in the value of the dollar against the yen was also illustrated by a rise of 28.8 per cent in Japanese FOB exports from a year ago, in dollar terms, to a record $19bn, but a decline of 16.8 per cent in terms of the yen for the period.

£ IN NEW YORK

Oct 13	Latest	Previous Close
£ Spot	1.4275-1.4285	1.4335-1.4345
1 month	0.48-0.46 pm	0.55-0.53 pm
3 months	1.52-1.48 pm	1.70-1.68 pm
12 months	5.85-5.75 pm	6.05-5.95 pm

Forward premiums and discounts apply to the U.S. dollar.

STERLING INDEX

	Oct. 13	Previous
8.30 am	67.4	67.7
9.00 am	67.4	67.7
10.00 am	67.5	67.7
11.00 am	67.5	67.7
Noon	67.5	67.7
1.00 pm	67.4	67.7
2.00 pm	67.4	67.5
3.00 pm	67.4	67.4
4.00 pm	67.5	67.6

CURRENCY RATES

Oct. 13	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	N/A	0.733752
U.S. Dollar	6	"	1.05037
Canadian $	8.50	"	1.45738
Austrian Sch.	4	N/A	14.6358
Belgian Franc	8	"	43.2068
Danish Kroner	7	"	7.84203
Deutsche Mark	3½	"	2.08099
Neth. Guilder	4½	"	2.35187
French Franc	9½	"	6.81688
Italian Lira	12	"	1440.05
Japanese Yen	3½	"	162.019
Norway Krone	8	"	7.63984
Spanish Peseta	—	"	137.913
Swedish Krona	8	"	7.6665
Swiss Franc	4	"	1.69561
Greek Drach.	20½	"	140.523
Irish Punt	—	"	0.765573

* C$/SDR rate for Oct. 10; 1.68226.

CURRENCY MOVEMENTS

October 13	Bank of England Index	Morgan Guaranty Changes %
Sterling	67.5	N/A
U.S. Dollar	109.0	"
Canadian Dollar	76.7	"
Austrian Schilling	133.7	"
Belgian Franc	97.6	"
Danish Kroner	90.3	"
Deutsche Mark	142.5	"
Swiss Franc	169.9	"
Guilder	131.0	"
French Franc	70.8	"
Lira	48.2	"
Yen	215.0	"

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base average 1975=100).

OTHER CURRENCIES

Oct. 13	£	$
Argentina	1.5510-1.5570	1.0830-1.0865
Australia	2.2465-2.2505	1.5685-1.5700
Brazil	19.71-19.84	13.77-13.84
Finland	6.9260-6.9380	4.8425-4.8445
Greece	189.40-192.77	132.73-134.81
Hong Kong	11.1535-11.1640	7.7975-7.7995
Iran	108.70*	76.25*
Kuwait	0.41920-0.41980	0.29280-0.29300
Luxembourg	58.80-58.90	41.00-41.10
Malaysia	3.7520-3.7575	2.6230-2.6250
N. Zealand	2.8440-2.8540	1.9850-1.9910
Saudi Ar.	5.3695-5.3740	3.7495-3.7500
Singapore	3.1085-3.1135	2.1735-2.1755
S. Af. (Cm)	3.1920-3.2155	2.2335-2.2385
S. Af. (Fn)	6.5060-6.8160	4.5435-4.7620
U.A.E.	5.2590-5.2640	3.6725-3.6735

* Selling rate.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu October 13	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	43.1139	43.2068	+0.22	+1.01	±1.5368
Danish Krone	7.81701	7.84203	+0.32	+1.11	±1.6403
German D-Mark	2.11083	2.08099	−1.41	−0.62	±1.1127
French Franc	6.87316	6.81688	−0.82	−0.03	±1.3659
Dutch Guilder	2.37833	2.35187	−1.11	−0.32	±1.5059
Irish Punt	0.764976	0.765573	+0.08	+0.87	±1.6683
Italian Lira	1476.95	1440.05	−2.43	−1.98	±4.0734

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

POUND SPOT—FORWARD AGAINST THE POUND

Oct. 13	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4275-1.4350	1.4340-1.4350	0.59-0.56c pm	4.81	1.72-1.69 pm	4.75
Canada	1.9830-1.9920	1.9910-1.9920	0.44-0.34c pm	2.35	1.16-1.03 pm	2.20
Netherlands	3.20-3.21¼	3.20¼-3.21¼	1½-1¼c pm	5.14	4⅜-4⅛ pm	5.30
Belgium	58.78-59.05	58.80-58.90	19-14c pm	3.36	51-43 pm	3.19
Denmark	10.67¼-10.71½	10.70-10.71	1⅞-¼ore pm	1.47	4⅝-3¾ pm	1.49
Ireland	1.0425-1.0505	1.0440-1.0450	0.40-0.60p dis	−4.60	1.10-1.45 dis	−4.88
W. Germany	2.82¾-2.84½	2.83¼-2.84¼	1⅝-1¼pf pm	6.34	4½-4¼ pm	6.17
Portugal	207.51-209.65	208.07-209.65	57-118c dis	−5.03	209-359 dis	−5.44
Spain	187.80-188.53	188.08-188.36	25-61c dis	−2.74	99-119 dis	−1.89
Italy	1959-1969¾	1964¼-1966¼	par-2lire dis	−0.61	par-3 dis	−0.31
Norway	10.41¼-10.44	10.43-10.44	3¾-4⅝ore dis	−4.82	10⅛-11¼ dis	−4.07
France	9.27¼-9.31½	9.29¾-9.30¾	1⅜-⅞c pm	2.26	4⅛-3¼ pm	1.59
Sweden	9.76¼-9.78¾	9.77¾-9.78¾	1⅞-1¼ore pm	1.92	5⅝-4⅝ pm	2.10
Japan	220½-221¼	220¾-221¾	1¼-1y pm	6.13	3⅞-3⅝ pm	5.90
Austria	19.89-19.99	19.94-19.97	9¾-7¾gro pm	5.15	24⅞-21⅛ pm	4.61
Switzerland	2.30½-2.32¼	2.31-2.32	1½-1¼c pm	7.13	4-3¾ pm	6.70

Belgian rate is for convertible francs. Financial franc 59.40-59.50. Six-month forward dollar 3.37-3.32c pm. 12-month 6.20-6.10c pm.

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

Oct. 13	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.4275-1.4350	1.4340-1.4350	0.59-0.56c pm	4.81	1.72-1.69 pm	4.75
Ireland†	1.3666-1.3735	1.3725-1.3755	1.15-0.80c pm	8.54	3.25-2.50 pm	8.39
Canada	1.3830-1.3880	1.3870-1.3880	0.27-0.30c dis	−2.47	0.87-0.92 dis	−2.58
Netherlands	2.2345-2.2485	2.2350-2.2360	0.12-0.09c pm	0.56	0.29-0.26 pm	0.49
Belgium	41.00-41.25	41.00-41.10	4-6 c dis	−1.46	15-19dis	−1.65
Denmark	7.45-7.49¾	7.46-7.46½	1.85-2.35ore dis	−3.37	6.00-6.60dis	−3.37
W. Germany	1.9775-1.9900	1.9780-1.9790	0.28-0.25pf pm	1.60	0.68-0.63pm	1.32
Portugal	145¼-145¾	145¼-145½	100-140c dis	−9.89	325-425c dis	−10.31
Spain	131.12-131.50	131.15-131.25	65-95c dis	−7.30	195-235dis	−6.54
Italy	1365-1375	1369¾-1370¼	5½-6½lire dis	−5.25	16½-18dis	−5.03
Norway	7.26-7.29	7.27¼-7.27¾	5.70-6.10ore dis	−9.73	16.20-16.60dis	−9.02
France	6.48-6.51	6.48¾-6.48¾	1.35-1.55c dis	−2.68	4.80-5.20dis	−3.08
Sweden	6.80¾-6.84	6.81¾-6.82¼	1.60-1.75ore dis	−2.95	4.55-4.95dis	−2.78
Japan	153.90-154.75	154.20-154.30	0.19-0.14y pm	1.28	0.40-0.35pm	0.97
Austria	13.91½-13.98	13.92¼-13.92¾	¾-¼gro pm	0.43	¼pm-1¼dis	0.21
Switzerland	1.6120-1.6250	1.6135-1.6145	0.37-0.32c pm	2.56	0.79-0.74 pm	1.89

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 41.40-41.50.

EURO-CURRENCY INTEREST RATES

Oct. 13	Short term	7 Days' notice	One Month	Three Months	Six Months	One Year
Sterling	8¾-9	9⅜-9½	10 5/16-10 7/16	10 11/16-10 13/16	10¾-10⅞	10 13/16-10 15/16
US Dollar	—	5 11/16-5 13/16	5 13/16-5 15/16	5 13/16-5 15/16	5 13/16-5 15/16	5 15/16-6 1/16
Can. Dollar	8¼-8¾	8¼-8¾	8⅜-8⅝	8⅜-8⅝	8⅜-8⅝	8⅜-8⅝
D. Guilder	5¼-5½	5¼-5½	5⅜-5⅝	5⅜-5⅝	5⅜-5⅝	5⅜-5⅝
Sw. Franc	1¼-1⅝	1¼-1⅝	3 5/16-3 7/16	3⅞-4	3 15/16-4 1/16	3 15/16-4 1/16
Deutschmark	4¼-4⅝	4 5/16-4 7/16	4⅜-4½	4 7/16-4 9/16	4½-4⅝	4½-4⅝
Fr. Franc	7½-8	7¾-8¼	8⅜-8⅝	8 5/16-8 11/16	8¼-8½	8⅝-8⅞
Italian Lire	9-10	9½-10½	10⅛-10⅞	10½-11	10⅝-11	10⅝-10⅞
B. Fr. (Fin.)	7-7¼	7¼-7⅝	7 3/16-7 5/16	7¼-7½	7¼-7½	7¼-7½
B. Fr. (Con.)	6¾-7¼	7¼-7¾	7¼-7¾	7⅜-7⅞	7⅜-7⅞	7¼-7¾
Yen	4⅜-4½	4 13/16-4⅞	4 13/16-4⅞	4 15/16-5	4⅞-4 15/16	4¾-4⅞
D. Krone	9-9½	9¾-10¼	9⅞-10⅛	9⅞-10⅛	9⅞-10⅛	9⅞-10⅛
Asian $ (Sing.)	5 11/16-5 13/16	5 11/16-5 13/16	5 11/16-5 13/16	5¾-5⅞	5¾-5⅞	5⅞-6

Long-term Eurodollars: Two years 6½-6¾ per cent; three years 6⅞-7⅛ per cent; four years 7½-7¾ per cent; five years 7¾-8 per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Oct 13	£	$	DM	YEN	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.435	2.838	221.3	9.303	2.315	3.208	1965	1.992	58.85
$	0.697	1	1.979	154.3	6.485	1.614	2.236	1370	1.388	41.05
DM	0.352	0.506	1	77.79	3.278	0.816	1.130	692.6	0.702	20.74
YEN	4.520	6.484	12.82	1000	42.05	10.46	14.50	8882	9.001	266.0
F Fr.	1.075	1.542	3.050	237.9	10	2.489	3.448	2113	2.141	63.26
S Fr.	0.432	0.620	1.226	95.57	4.018	1	1.386	848.9	0.860	25.42
H Fl.	0.312	0.447	0.885	68.98	2.900	0.722	1	612.7	0.621	18.35
Lira	0.509	0.730	1.444	112.6	4.733	1.178	1.632	1000	1.013	29.95
C $	0.502	0.720	1.425	111.1	4.671	1.162	1.611	986.8	1	29.55
B Fr.	1.699	2.438	4.822	376.0	15.81	3.934	5.450	3339	3.384	100

Yen per 1,000: French Fr per 10: Lira per 1,000: Belg Fr per 100.

FINANCIAL FUTURES

Gilt prices lose ground

GILT CONTRACTS were marked lower in the London International Financial Futures Exchange yesterday amid continued concern about the weakness of sterling and the possibility of a rise in UK clearing bank base rates. The December price opened at 112-05 down from 112-28 as selling developed on the back of sterling's weakness and lower US bonds. However buyers appeared and at one point looked like reversing the fall but sentiment remained bearish and sellers retained the upper hand.

After rallying briefly from an early low of 112-00 to 112.09, values fell away to a low of 111-14 before closing at 111-15. In the absence of anything to create much buying incentive, the market acted on its recent bearish mood with Mr Nigel Lawson's speech on Thursday not seen as likely to provide much reason to reverse the sombre mood.

Short sterling operated in much the same way in rather thin trading. However prices were not marked down quite so much, reflecting a stable cash market to some extent. The December price opened at 89.18, which proved to be the high of the day and drifted down to a low of 89.08 before finishing at 89.10 down from 89.20 on Friday.

Three-month Euro-dollar deposits traded within a very narrow range in view of the closure of New York cash markets for Columbus Day. There was no incentive to push values in either direction and dealers were already looking ahead to next week's US GNP figures as providing the next possible incentive. The December contract traded in a three tick range to close at 94.15 compared with 94.16 at the opening and 94.19 previously.

US Treasury bonds opened lower after a sell off in Tokyo. The December contract started at 95-17 down from 96-02 and although some buying developed, there was no follow through demand and prices fell away to a low of 95-14 before closing at 95-17. Once again the market was denied any fresh impetus to stimulate trading.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last Dec.	Calls—Last Mar.	Puts—Last Dec.	Puts—Last Mar.
106	5.50	6.56	0.20	1.30
108	4.10	5.34	0.44	2.08
110	2.50	4.22	1.20	2.60
112	1.46	3.22	2.16	3.60
114	0.63	2.33	3.33	5.07
116	0.33	1.54	5.03	6.28
118	0.15	1.21	6.49	7.59
120	0.07	0.59	8.41	9.33

Estimated volume total, Calls 354, Puts 303
Previous day's open int, Calls 20,412, Puts 5,775

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Dec.	Calls—Last Mar.	Puts—Last Dec.	Puts—Last Mar.
88	7.40	7.59	0.06	1.19
90	5.50	6.32	0.16	1.56
92	4.07	5.15	0.37	2.39
94	2.46	4.09	1.12	3.33
96	1.41	3.14	2.07	4.38
98	0.58	2.28	3.24	5.52
100	0.29	1.53	4.59	7.13
102	0.13	1.21	6.43	8.45

Estimated volume total, Calls 6, Puts 126
Previous day's open int, Calls 624, Puts 925

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls—Last Dec.	Calls—Last Mar.	Puts—Last Dec.	Puts—Last Mar.
1525	12.28	16.45	1.08	2.15
1550	10.31	14.58	1.61	2.78
1575	8.51	12.83	2.31	3.53
1600	6.89	11.21	3.19	4.41
1625	5.48	9.72	4.28	5.42
1650	4.27	8.36	5.57	6.56
1675	3.26	7.13	7.06	7.83
1700	2.44	6.04	8.74	9.24

Estimated volume total, Calls 0, Puts 7
Previous day's open int, Calls 187, Puts 190

LONDON SE £/$ OPTIONS

[illegible]

LIFFE £/$ OPTIONS

[illegible]

LIFFE—EURODOLLAR OPTIONS

[illegible]

PHILADELPHIA SE £/$ OPTIONS

[illegible]

LONDON

20-YEAR 12% NOTIONAL GILT

[illegible]

THREE-MONTH STERLING

[illegible]

U.S. TREASURY BONDS

[illegible]

FT-SE 100 INDEX

[illegible]

THREE-MONTH EURODOLLAR

[illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8%

[illegible]

CERT. DEPOSIT (IMM)

[illegible]

THREE-MONTH EURODOLLAR (IMM)

[illegible]

U.S. TREASURY BILLS (IMM)

[illegible]

STANDARD & POORS 500 INDEX (IMM)

[illegible]

CURRENCY FUTURES

[illegible]

MONEY MARKETS

UK rates steady in quiet trading

INTEREST RATES showed little overall change in the London money market yesterday. While sterling showed a slightly weaker trend and dealers continued to look for at least a one point rise in base rates, there was little incentive to push the point before Mr Nigel Lawson's speech to the City on Thursday. Three-month interbank money was quoted at 10 11/16-10 13/16 per cent, unchanged from Friday. Overnight money started around 8¾ per cent and eased to 7½ per cent before finishing at 10¼ per cent.

The Bank of Enngland forecast a surplus of around £100m with factors affecting the market including maturing assistance and a take up of Treasury bills together draining £260m. These were more than ofset by a fall in the note circulaion of £325m, banks' balances brought forward £20m above target and exchequer transactions adding a further £5m. The forecast was later revised to a flat position and the Bank did not intervene in the morning.

UK clearing bank base lending rate 10 per cent since May 22

In the afternoon the forecast was revised once more, this time to a shortage of around £100m and the Bank gave assistance through outright purchases of £63m of eligible bank bills, £10m in band 3 at 9¾ per cent and £53m in band 4 at 9 11/16-9¾ per cent.

In Frankfurt the Bundesbank announced its intention to offer a 28-day sale and repurchase agreement at a fixed rate of 4.35 per cent. Successful applicants will be credited with funds tomorrow, coinciding with the maturity of a previous 35-day facility which will drain DM12bn. The fixed rate of 4.35 per cent underlined the authorities' reluctance to ease credit policies at the moment. West German money supply is currently growing at nearly 10 per cent, compared with an official target range of 3½-5½ per cent. Meanwhile call money was a little easier as banks were well on target to meet their end of month minimum reserve requirements. In addition funds were creeping into the system as a result of the Bundesbank's recent intervention to support the dollar. Today's repurchase tender is expected to fall well short of the amount of the maturing facility.

In Paris the Bank of France fixed December 1 as the day when the daily call money fixing would be abolished. Thereafter a rate would be published relating to the previous day, compiled by the Bank of France in consultation with interbank dealers.

MONEY RATES

NEW YORK (Lunchtime)

[illegible]

FT LONDON INTERBANK FIXING

[illegible]

LONDON MONEY RATES

[illegible]

COMPANY NOTICES

PETROLEOS MEXICANOS
US$125,000,000 Floating Rate Notes 1991

FOR SIX MONTHS

In accordance with the provisions of the notes notice is hereby given that the rate of interest has been fixed at 6⅛ per cent per annum. Interest payable April 14th 1987 against Coupon No. 12 will be $154.83 against 5000 notes by Chemical Bank London (Agent Bank).

TORAY INDUSTRIES, INC. (formerly Toyo Rayon Kabushiki Kaisha)

[illegible]

AUSTIN REED GROUP PLC

[illegible]

LEGAL NOTICES

[illegible]

£ WORLD VALUE OF THE POUND

The table below gives the latest available rates of exchange for the pound against various currencies on October 13, 1986. In some cases rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

[illegible]

COUNTRY	CURRENCY	VALUE OF £ STERLING	COUNTRY	CURRENCY	VALUE OF £ STERLING	COUNTRY	CURRENCY	VALUE OF £ STERLING
[illegible]								

[illegible]

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

1986 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
99	94	Exch. 2½pc 1986	99	+½	2.52	8.13
102	100	Exch. 13¼pc 1987	100		13.17	10.39
100	97	Treas 10½pcCv '87	99		10.28	10.91
98	92	Exch 2½pc 1987	98		2.55	7.74
101	97	Exch. 10½pc 1987	99		10.52	10.92
98	93	Funding 6½pc 85-87	98		6.62	9.96
100	96	Treas. 10pc 1987	99		10.06	10.81
97	90	Treas 3pc 1987	96		3.12	8.23
104	99	Treas. 12pc 1987	101	+⅛	11.86	10.89
99	92	Treas 7¾pc 1985-88‡‡	96	+⅛	8.02	10.39
104	96	Exch 10½pc '88	99		10.57	11.01
102	95	Treas 9¾pc Cv '88	98	–⅛	9.93	10.93
94	86	Transport 3pc '78-88	91		3.27	8.16
102	99	Treas. 9½pc '88	97		9.76	10.99
107	98	Treas 11½pc 1989	100		11.40	11.02
103	93	Treas 9¼pc Cnv 1989	96		9.82	11.02
92	82	Treas 3pc 1989	87	+¼	3.41	8.51
105	95	Treas 10½pc 1989	98	–⅛	10.64	11.05
104	94	Exch 10pc 1989	97	–⅛	10.26	11.06
107	97	Exch 11pc 1989	99	–⅛	11.02	11.06
93	84	Treas 5pc 1986-89	88	+¼	5.63	9.37
110	94	Exch 10½pcCv '89	101		10.15	9.89
[illegible]						

AMERICANS—Cont.

1986 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
37¾	28¾	Chemical New York	30	–½	$2.60	—	5.8
35¾	26	Chesebrough-Pond's $1	32	+⅛	$2.00	—	4.2
31¼	19	Chrysler $6¼	25		$1.40	—	3.7
42¾	33	Citicorp $4	33	–½	$2.26	—	4.6
12	774p	CityFed Fin. Corp.	10¼	–¼	40c	—	2.7
28	21	Colgate-P. $1	26	–½	$1.36	—	3.5
67	42	Colt Inds. $1	67	–½	$2.50	—	2.5
25	16	Cons Freightways $0.625	24	–½	82c	—	2.3
829p	399p	Contl-Illinois Corp $1	490p	–12	—	—	—
89	13	Contl Illinois Hldgs $2	19	–½	—	—	—
99p	39p	Corporate Data Sces	72p		—	—	—
13	452p	Cullinet Sftwr $0.1	456p		—	—	—
287p	34p	Dawson Oil 40c	52p	+4	—	—	—
23	17	Dana Corp. $1	20		$1.28	—	4.3
33	19	Data General	23	–¼	—	—	—
[illegible]							

LONDON SHARE SERVICE

BUILDING, TIMBER, ROADS—Cont.

DRAPERY & STORES—Cont.

ELECTRICALS

ENGINEERING—Continued

INDUSTRIALS—Continued

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

CHEMICALS, PLASTICS

DRAPERY AND STORES

ENGINEERING

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

LEISURE—Continued

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Continued

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

INVESTMENT TRUSTS—Cont.

[illegible]

Finance, Land, etc

[illegible]

FINANCE, LAND—Cont.

[illegible]

OIL AND GAS

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

MINES—Continued

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 29 per cent and allow for value of declared distribution and rights.

- • "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- ♦ Figures or report awaited.
- ♥ Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- ♣ Not comparable.
- ♦ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ¥ No par value.

B.Fr. Belgian Francs. Fr. French Francs. ‡‡ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Figures based on prospectus or official estimates for 1984. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1985. P Figures based on prospectus or other official estimates for 1983. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	60xd	.....	Fin. 13% 97/02	£95¼	.....
Craig & Rose £1	£13½	.....	Arnotts	265	−5
Finlay Pkg. 5p	47xd	.....	CPI Hldgs.	40	.....
Holt (Jos) 25p	810xd	−10	Carrol Inds.	113	.....
IoM Stm. £1	75	.....	Dublin Gas	30	.....
			Hall (R. & H.)	80	.....
IRISH			Heiton Hldgs.	29	.....
Fund 11¼% 1988	£97⅝xd	.....	Irish Ropes	95xd	+3
Nat. 9¾% 84/89	£92¼	.....	Unidare	232	−3

"Recent Issues" and "Rights" Page 37
(International Edition Page 33)

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £875 per annum for each security.

LONDON STOCK EXCHANGE

Account Dealing Dates			
*First Dealings	Option Declarations	Last Dealings	Account Day
Sept 29	Oct 9	Oct 10	Oct 20
Oct 11	Oct 23	Oct 24	Nov 3
Oct 27	Nov 6	Nov 7	Nov 17

*"New time" dealings may take place from 9.30 am two business days earlier.

Sluggish trading brings further gains in share prices but falls in Government securities

London's securities markets, which had any number of reasons for caution, traded sluggishly yesterday. In the stock market, the international blue chips opened the new trading account firmly. But Government bonds, still unhappy with prospects for the pound and for domestic interest rates, drifted lower.

With sterling dull, progress at the Opec meeting uncertain, US interest reduced by Columbus Day, and attendance in London markets affected by the Jewish holiday, turnover in both gilt-edged and equity sectors was below par.

Despite the optimism at the end of last week, the City remains fearful that UK interest rates may be forced higher to defend the pound. Attention will be focussed this week on Thursday's annual bankers' dinner at the Guildhall, when the Chancellor of the Exchequer and the Governor of the Bank of England will deliver their traditional speeches to City financial community.

Government bonds opened lower, and gave further ground later in the session, to end with net losses of ½ point or so. In the general absence of demand, the Government Broker was unable to sell any of the £800m new taplet stocks announced on Friday. The FA Government Securities index shed ??.?? to ??.??.

In the stock market, there was brisk trading in the newly-issued shares of Trustee Savings Bank (TSB), but the mapor institutions again kept out of the way. Selling by private investors began to slacken and an active business in traded options of TSB indicated underlying support for the stock at current levels.

Oil shares opened flat after bearish comments on the Geneva meeting of the Opec ministers. But, in the absence of New York interest, prices soon steadied. Glaxo Holdings moved higher on London buying ahead of the annual results, due today. US investors have shown less confidence in Glaxo stock recently. Also firmer were Saatchi and Saatchi, despite adverse press comment.

The FT-SE 100 Stock Index gained 12.9 to 1612.3, while the FT Ordinary Share index added 10.0 to 1275.4.

Composites firm

Investors came for Composites on the first day of the Account and closing gains ran into double figures. Perennial takeover favourite Commercial Union ended the session 10 up at 293p, while Royals put on 20 at 807p. Sun Alliance appreciated 13 at 697p and rises of 10 and 12 respectively were seen in GRE, at 807p, and General Accident, at 829p. Elsewhere, Abbey Life moved up 8 to 194p in anticipation of tomorrow's interim figures. Weekend Press comment on the possible merger with Fielding Insurance, a subsidiary of Hambros, helped C. E. Heath firm a further 5 at 488p.

Clearing banks were overshadowed by the activity in TSB and closed with only minor movements either way. Elsewhere, Guinness Peat hardened a couple of pence to 87p in response to Press comment.

TSB had another busy session and closed a penny down on the day at 84½p, after 82p; traded option activity was again considerable and finally imparted stability to the share price.

Regional Breweries provided a firm feature in Sunderland-based Vaux which advanced 15 to 390p as bid rumours resurfaced. Buckleys, firm on Friday as Bestwood increased its stake to over 15 per cent, eased a few pence to 118p.

Interest in the Building leaders was at a low ebb, but John Laing attracted support on talk of a stake build-up and rose 13 to 370p. Blue Circle, a firm market last week following an analysts' meeting in the US, edged forward to 583p prior to closing a penny dearer on balance at 581p. Bryant Holdings became the latest housebuilding group to announce a rights issue—the company is seeking to raise some £17m—and the price fell 5 to 106p. Wilson (Connolly) edged up 3 to 241p and McLaughlin and Harvey gained 10 to 120p. Ramus firmed 5 to 93p in reply to the good annual results, while Tay Homes rose 10 to 185p ahead of tomorrow's preliminary statement. Newsletter comment boosted Gibbs and Dandy, the Ordinary shares rising 13 to 136p and the A 12 to 62p.

A selectively firm Chemical sector showed Allied Colloids 5 higher at 226p and Foseco the same amount to the good at 224p. Wardle Storeys also made progress to close 5 better at 348p.

Burton buoyant

Retailers enjoyed their best session for some considerable time. Weekend Press comment highlighting the company's cash-raising proposals stimulated sizeable support for Burton which touched 280p before settling 12 up on balance at 278p. The enthusiasm spread to other major high street Stores, notably Marks and Spencer which improved 7 to 197p, partly reflecting revived hopes of bumper profits from the prospective expansion into out-of-town sites.

Secondary issues also made noteworthy, albeit selective progress. Ratners, expected to benefit from a lucrative Christmas trade following the takeover of H. Samuel, improved 10 to 226p, while speculative attention was also evident for Lincroft Kilgour, 18 better at 251p, and A. G. Stanley, 15 up at 95p, the latter following newsletter comment which effectively revived long-standing rumours of a bid from paint group Berger Jensen and Nicholson. Fresh support was also noted for Blacks Leisure which put on 1½ more to 9p on further consideration of the recent cash injection.

Cable and Wireless continued to attract good support in the wake of its recent revelation that the group is part of a consortium examining the feasibility of establishing an alternative international telecommunication system for Japan and closed the session 20 higher at 344p. Ferranti hardened a couple of pence at 104p after Press comment and Racal added 4 more at 164p. Elsewhere in Electricals, IBL rose 5 to 58p in reply to the increased interim profits, while MicroFocus improved 5 at 115p in anticipation of today's first-half figures. Synapse Computer reflected demand in a restricted market at 235p, up 35, while gains of around 7 were seen in International Signal and Control, 245p, United Leasing, 133p, and Amstrad, 126p.

Interest was at a low ebb among Engineerings, but a few secondary stocks nevertheless showed to good advantage. Ash and Lacy firmed 11 to 400p as investors returned ahead of Friday's interim results, while a weekend newspaper mention helped MS International harden a penny at 92p and Johnson Firth Brown put on a couple of pence at 32½p. Speculative buying prompted gains of 15 in both Davies and Metcalfe "A," 70p and Hallite, 190p. F. S. Ratcliffe rose 10 at 190p, Birmid Qualcast ut on 3½ at 121p and Derritend added 6 at 283p.

Activity in the Food sector tailed off and the leaders showed little alteration. Dee Corporation, a dull market Friday on talk that a large line of stock was on offer, gave a steadier performance and edged forward late to close 3 dearer at 218p. Tesco continued to attract buyers and firmed 4 more to 405p and J. Sainsbury hardened a couple of pence to 408p. Albert Fisher added 3 to 190p and Batleys rose 5 to 88p, the latter in a restricted market. Elsewhere, Christian Salvesen revived with an improvement of 4 at 150p, while Bio-Isolates came to life and gained 5 to 18p.

Pilkington wanted

Pilkington, the subject of considerable institutional support of late amid talk of a broker's upgraded profits forecast, jumped 18 more to 478p yesterday in response to weekend Press speculation about a possible bid for the company. BOC attracted a useful demand and closed 12 to the good at 314p, while Rank Organisation put on 6 at 520p. Glaxo edged forward 5 to 940p in anticipation of today's preliminary results.

Numerous features emerged among secondary miscellaneous industrials. Reflecting business transacted late Friday, Bridon opened sharply higher and closed 21 up on balance at 144p following the announcement that Dr Ashraf Marwan holds a near-5 per cent stake in the company. An investment recommendation left Christies International 11½ dearer at 263p, while buying on expansion hopes helped MS jumped 12 at 85p and DSC rise 9 at 82p. Revived takeover speculation lifted Rockware 6 to 45p, while Sandhurst Marketing rose 8 to 90p on news of the bid approach. Benlox gained 4 to 48p in reply to a newsletter recommendation, while speculative support prompted rises of between 5 and 8 in Arenson, 48p, Cannon Street Investments, 163p, Metal Closures, 143p, Ecobric, 37p, and Senic, 68p. J. Hewitt added 18 to 195p in a thin market and NU Swift rose 7 to 165p.

Secondary issues made the running in the Property sector. Gilbert House continued the remarkable run—the shares stood at 20p a week ago prior to Mr Nigel Wray taking control—and the price surged to 100p prior to closing 13 higher on the day at 88p. Bid rumours boosted Warnford Investments to 875p at one stage before profit-taking brought a close of 55 higher on the day at 825p, while speculative demand was also noted for Bush and Tompkins, up 17 at 240p, and Edmund Holdings, 2 dearer at 20½p. Imry rose 10 to 375p awaiting bid developments and Abaco hardened a couple of pence to 72p following Press comment.

Views that the group was now a buy after a prolonged spell of weakness took British and Commonwealth up 13 further to 243p awaiting the mid-term statement, which is expected soon. Associated concern Caledonia Investments also attracted support and ended 18 higher at 226p.

Basically firm Textiles were highlighted by Albion which, after being recommended in a tipsheet, closed 16 to 48p. Occasional speculative interest lifted Youghal around 3 to a 1986 peak of 15p, while Kingsley and Forester improved 2 to 69½p on increased mid-term profits. John Crowther made fresh headway to close 4 dearer at 173p xd, while Lamont gained 10 to 173p and Harold Ingram 5 to 150p.

Encouraging weekend comment drew more investors to China and Eastern Investment which furthered last week's rise to close 8 better at 78p. Among Financials, Exco moved up 25p on comment that predators were closing in on the group before easing late to end a net 5 higher at 248p. Mercantile House staged a similar rise to 284p.

Television issues continued to attract attention. Press comment stimulated Thames TV which firmed 5 to 280p, while Anglia A and LWT posted similar gains at 288p and 410p respectively. Sangers Photographic gained 10 to 88p on speculative buying, while Photax rose 8 to 73p following Press comment.

Motor component manufacturers were held in check by bearish comment on the sector's prospects. AE were the exception and edged up 3 to 220p awaiting the Takeover Panel's statement on the Turner and Newall affair; a decision in favour of the latter could lead to a renewed offer for AE. Reliant were sporadically bought and hardened 2 to 18p.

USM-listed Moorgate ran into nervous selling and fell 15 to 108p after news that Jon Sayers, joint managing director and one of the founder members of the group, was to leave. Mr Sayers has agreed to dispose of his 25 per cent shareholding, and brokers Greenwell will place the stock. Small demand in a narrow market took Thorpac up 7 to 88p. Advertising Agencies continued to prosper, Saatchi and Saatchi gained 50 more to 660p despite US criticism of the company's strategy of growth through acquisitions. Lowe Howard-Spink rose 6 to 366p, but recently-firm LCA reacted 7 to 103p.

Oils steady

The Oil majors shrugged aside a newspaper article detailing the implications for the market if Opec fails to reach a quotas agreement. Both BP and Shell closed unchanged on balance at 685p and 925p respectively having been a shade easier at the outset. Britoil continued to trade firmly and closed 3 dearer at 136p, after 138p; Morgan Guaranty speaks for 12.2 per cent of the equity. IC Gas eased 4 to 518p despite persisting bid rumours, but Conroy Petroleum gained 28 more to 270p on mounting takeover and exploration hopes. Berkeley Exploration put on 6 to 38p on rumours of a stake changing hands, while Bristol Oil and Minerals, mentioned in the weekend press as a "shell" operation grounds, gained 4½ to 21½p.

Renewed bid speculation pushed Inchcape up 8 more to a year's high of 463p among Overseas Traders. Also Bros were raised 10 to 560p after the interim statement, while Polly Peck improved late to close at 160p, up 5. Grand Central again featured Plantations, gaining 5 further to a 1986 peak of 90p.

Activity in South African mining markets was reduced to a trickle. Dealers reported a sharp contraction in turnover in most international trading centres reflecting poor attendance due to the Jewish Yom Kippur and US Columbus Day holidays.

Johannesburg set the initial trend with trading described as "slow." This sentiment was echoed elsewhere, although heavyweight Golds still made modest progress in sterling terms mirroring the steady financial rand and slightly firmer bullion—the latter put on $0.625 to $432.25 an ounce.

In sharp contrast, extremely lively conditions again prevailed in Consolidated Gold Fields; a welter a favourable comment in the weekend Press coupled with fresh traded option business lifted the shares to a new peak of 700p before a close of 679p—up 17 on balance. Talk of a bid from Hanson Trust was greeted with a certain amount of scepticism, although speculation remained that Mr Harry Oppenheimer was still planning to re-jig his interests. The Bermudan-registered Minorco, which controls around 28 per cent of ConsGold, rose 10 more to 645p.

RTZ, up to 719p at one stage, also encountered occasional profit-taking in the later trade and settled a net 3 cheaper at 709p. News that RTZ has reduced its holding in CRA to under 50 per cent via the sale of 16.38m shares, whilst not unexpected, was seen as encouraging with brokers de Zoete and Bevan forecasting that the move will increase RTZ earnings from its stake in CRA by some £17m a year. CRA closed 5 up at 351p.

As on Thursday and Friday of last week, business in Sydney and Melbourne markets centred on industrial, rather than mining issues; sentiment in the latter still cleary nervous in the wake of the recent rights issues from North Kalgurli and cross-holding concerns Metals Exploration and Mid-East Minerals. Golds were decidedly irregular. Whim Creek put on 15 to 228p and Poseidon a few pence to 211p, but Central Norseman fell 10 to 730p, while Emperor shed 5 to 268p.

Traded Options

Although substantially reduced from last Friday's record levels, business in Traded Options was still extremely lively. Total contracts struck amounted to 36,766—made up of 23,519 calls and 13,247 puts. TSB accounted for 12,830 calls and 10,371 puts. Activity elsewhere rentred on Consolidated Gold Fields, which were again supported amid persistent takeover speculation with 1,844 calls struck.

Traditional Options

- First dealings Oct 6 Oct 20 Nov 3
- Last dealings Oct 17 Oct 31 Nov 14
- Last declaration Jan 8 Jan 22 Feb 5
- For Settlement Jan 19 Feb 2 Feb 16

For rate indications see end of Unit Trust Service.

Stocks favored for the call included TSB, Abaco Investments, Barker and Dobson, Cadbury Schweppes, Rivlin, Amstrad, Common Brothers, Equity and General, Peek, Hillards, Freshbake, Aberfoyle, Bristol Oil and Minerals, Consolidated Gold Fields, Racal, Blacks Leisure, Sears, Charterhall, F.J.C. Lilley, Berkeley Exploration, J. Saville Gordon, Automated Security, Hardanger Properties, British Car Auction and Fergabrook. No puts were reported, but doubles were transacted in TSB and Equity and General.

FINANCIAL TIMES STOCK INDICES

	Oct. 13	Oct. 10	Oct. 9	Oct. 8	Oct. 7	year ago	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs	83.54	83.68	83.21	82.49	82.98	84.16	94.51 (18/4)	80.39 (20/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	89.31	89.84	89.70	89.56	89.69	89.91	97.68 (7/7)	86.55 (23/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1,275.4	1,265.4	1,268.1	1,248.1	1,257.3	1,028.8	1,425.9 (3/4)	1,094.3 (14/1)	1,425.9 (3/4/86)	49.4 (26/6/40)
Gold Mines	322.2	319.3	332.1	333.5	329.4	294.6	357.8 (22/9)	185.7 (18/7)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.37	4.40	4.39	4.45	4.42	4.65				
Earnings Yld.%(full)	10.05	10.10	10.07	10.23	10.14	11.38				
P/E Ratio (net) (*)	12.20	12.14	12.18	11.99	12.09	10.87				
Total Bargains (Est)	34,156	29,980	22,470	22,648	21,982	24,498				
Equity Turnover £m.	—	685.31	744.33	532.27	469.39	530.22				
Equity Bargains	—	57,361	24,614	19,700	17,218	25,725				
Shares Traded (ml).	—	348.0	304.8	236.5	214.2	205.4				

S.E. ACTIVITY Indices	Oct. 10	Oct. 9
Gilt Edged Bargains	102.2	130.5
Equity Bargains	371.7	159.5
Equity Value	1385.2	1504.5
5-Day Average		
Gilt Edged Bargains	117.5	121.0
Equity Bargains	177.4	125.5
Equity Value	1180.1	1082.9

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1264.5	1265.7	1267.4	1269.7	1271.1	1270.9	1271.8	1273.9

Day's High 1275.4. Day's Low 1263.3.

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974 *Nil=11.71.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-246 8026

YESTERDAY'S ACTIVE STOCKS

Above average activity was noted in the following stocks yesterday

Stock	Closing price	Day's change	Stock	Closing price	Day's change
Berkeley Expln	38	+ 6	Imp Cont Gas	518	− 4
Boots	236	+ 5	Marks & Spencer	197	+ 7
Bristol Oil & Mins	21½	+ 4½	RTZ	709	− 3
Burton	278	+12	Saatchi & Saatchi	660	+20
Cons Gold Fields	679	+17	Stanley (A. G.)	95	+15
GKN	250	+ 1	TSB (50p paid)	84½	− 1

FRIDAY'S ACTIVE STOCKS

Based on bargains recorded in Stock Exchange Official List.

Stock	No. of changes	Fri. close	Day's change	Stock	No. of changes	Fri. close	Day's change
TSB (50p paid)	74	85½	—	Bridon	20	123	—
Amstrad	25	120	− 6	Prestwich	20	102	− 6
Imp. Cont. Gas	25	522	+19	Grand Met.	19	455	+ 5
Glaxo	22	935	−12	Nat West Bank	19	514	− 8
Cad. Schweppes	21	188	+ 3	Jaguar	18	528	−10
Gilbert House	21	85	—	Nth. Kalgurli	18	58	−10½

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	16	59	37
Corporations, Dom., and Foreign Bonds	12	9	48
Industrials	426	250	853
Financial & Properties	127	80	372
Oils	33	19	60
Plantations	3	2	9
Mines	65	48	70
Others	34	105	58
Totals	716	572	1,507

NEW HIGHS AND LOWS FOR 1986

NEW HIGHS (69)

BRITISH FUNDS (1) Exch 2½pc 1986 BANKS (1) Banco de Santander. BREWERS (1) Burtonwood. BUILDINGS (4) Baggeridge Brick, Gibbs & Dandy A, Miller (S.), Tay Homes. CHEMICALS (1) Spectra Automotive. STORES (5) Alexon, Dunhill, Lee Cooper, Lincroft Kilgour, Stanley (A. G.). ELECTRICALS (6) Alphameric, Checkpoint Europe, MMT Computing, Mervier-Swain, Plasmec, Synapse Computer. FOODS (3) Asda-MFI, England (J. E.), Jacobs (W. & R.). HOTELS (2) Crusts, Grand Metropolitan. INDUSTRIALS (13) Arenson, Cannon St Invs, Ecobric, Do Defd, Hewitt (J.), Hodgson, Low & Bonar, Malomet, Pilkington Bros, Reed Executive, Rolfe & Nolan, Silentnight, Sonic. LEISURE (5) Anglia TV A, Central TV NV, LWT, Leisure Inv, Thames TV. NEWSPAPERS (1) News Intl. PROPERTY (6) Dwyer, Gilbert House Inv, Hardanger Prop, Intl Income Property, Southend Stadium, Warnford Inv. SHIPPING (1) Common Bros. TEXTILES (1) Youghal. TRUSTS (6) China & East Inv, Do Warrants, First Charlotte Assets, Gen Fund Cm, Exco Intl, Harvey & Thompson. OILS (6) AmBrit Intl R/V, Bristol Oil & Minerals, Bryson Oil & Gas, Conroy Pet Nat Res, Imp Cont Gas 8pc '95-2000, Premier Cons. OVERSEAS TRADERS (2) Inchcape, Ocean Wilson. PLANTATIONS (2) Grand Central Invs, Kuala Kepong. MINES (2) Cons Gold Fields, Mid Wits.

NEW LOWS (28)

AMERICANS (1) First Chicago. BREWERS (1) Merrydown Wine. BUILDINGS (1) Lawrence (W.) 8.5pc Cv Pf. ELECTRICALS (4) Godwin Warren, Imtec, Micro Scope, Microlease. ENGINEERING (2) Braway, Stothert & Pitt. INDUSTRIALS (11) Amari, Baynes (Charles), Camotech, Campbell & Armstrong, European Ferries, Magnacard, Pacer Systems, Pacific Sales, Pardon Intl 11pc '94-2002, Williams Hldgs 5½pc Cv Pf, Young (H.J.). LEISURE (2) Piccadilly Radio NV, Samuelson. PAPERS (2) Addison Consultancy, Conrad. SHIPPING (1) Sea Containers. TRUSTS (1) Biotechnology Invs. MINES (2) Vogels, Hongkong Tin.

FT-ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS

Figures in parentheses show number of stocks per section

Monday October 13 1986

[illegible]

FT-SE 100 SHARE INDEX ♦ 1612.3 +12.9

FIXED INTEREST

[illegible]

LONDON TRADED OPTIONS

[illegible]

October 13. Total Contracts 36,766. Calls 23,519. Puts 13,247. *Underlying security price.

EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS: 33,794

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

[illegible]

WORLD STOCK MARKETS

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

DENMARK

[illegible]

FRANCE

[illegible]

GERMANY

[illegible]

ITALY

[illegible]

NETHERLAND

[illegible]

NORWAY

[illegible]

SPAIN

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

AUSTRALIA

[illegible]

AUSTRALIA (continued)

[illegible]

HONG KONG

[illegible]

JAPAN

[illegible]

JAPAN (continued)

[illegible]

SINGAPORE

[illegible]

SOUTH AFRICA

[illegible]

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Kroner.

Indices

NEW YORK

[illegible]

NEW YORK ACTIVE STOCKS

[illegible]

TORONTO

TORONTO	Oct 13	Oct 10	Oct 9	Oct 8	1986 High	1986 Low
Metals & Minls	closed	2,134.82	2,140.2	2,183.9	2,442.86 (21/3)	1,917.4 (5/8)
Composite	closed	3,034.88	3,028.1	3,041.7	3,128.11 (18/4)	2,754.9 (17/2)
MONTREAL Portfolio	closed	1,529.48	1,527.28	1,538.81	1,623.33 (18/4)	1,398.6 (22/1)

* Indicates pre-close figure

[illegible]

** Saturday October 4: Japan Nikkei 17,808.4. TSE 1,485.87.

Base values of all indices are 100 except Brussels SE—1,000. JSE Gold—255.7. JSE Industrial—264.3, and Australia. All Ordinary and Metals—500. NYSE All Common—50: Standard and Poors—10: and Toronto Composite and Metals—1,000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. c Closed. u Unavailable.

LONDON Chief price changes (in pence unless otherwise indicated)

RISES

Albion	46	+16
Berkeley Explor	38	+6
Bristol Oil	21½	+4½
British & C'wealth	243	+13
Burton	278	+12
Cable & Wireless	344	+20
China & East Inv	78	+8
Conroy Petroleum	270	+28
Cons Gold Fields	679	+17
DSC Holdgs	82	+9
Davies & Metcal A	70	+15
Ecobric	37	+5
Gibbs & Dandy A	62	+12
Gilbert House Inv	98	+13
Hollis	85	+12
IBL	58	+5
Marks & Spencer	197	+7
New C't Nat Res	9½	+2½
Pilkington Bros	478	+18
Ratners	226	+10
Rockware	45	+6
Rush & Tompkins	240	+17
Sandh Marketing	90	+8
Somic	68	+8
Stanley (AG)	95	+15
Thorpac	88	+7
Royal Insurance	807	+20

FALLS

Tr 11¾% 2001-04	£106¾	−½
Tr 11¾% 2003-07	£109¾	−½
Moorgate Group	108	−15

OVER-THE-COUNTER Nasdaq national market, closing prices

Continued from Page 43

[illegible]

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26½	14⅜	AAR s	.44	2.0	17	56	22⅞	22⅜	22½	-¼
30	21¾	ADT	.82	3.5		37	26¼	26½	26⅛	-⅛
33	13	AFG s	.08	.3	15	222	30	29⅜	29⅝	+⅜
25⅝	13¾	AGS			13	20	18⅝	18⅛	18¼	
60⅝	38	AMR			15	1005	60⅛	58¾	59⅞	+¾
27½	23¼	ANR pf	2.67	10.		6	26¾	26	26¾	+¾
24	19⅜	ANR pf	2.12	9.3		1	22¾	22¾	22¾	
13⅛	9¾	APL			6	2	12⅝	12⅝	12⅝	+⅛
16¾	10	ARX	.71t	6.5	10	40	11	10⅝	10⅞	+¼
41½	28¾	ASA	2a	5.2		228	38⅝	38	38⅝	+⅜
18⅜	9¾	AVX		3.2		82	10⅛	9¾	10	+⅛
32	23⅞	AZP	2.72	9.5	8	882	28¾	28⅝	28¾	
55	27⅝	AbtLb s	.84	1.9	19	1743	44	43	43⅝	-⅝
32	21	AccoWd	.56	2.1	17	11	26⅞	26¾	26¾	-⅛
14⅞	9	AcmeC	.40	3.7		19	10¾	10½	10¾	+⅛
9¼	6¼	AcmeE	.32b	5.0	14	9	6⅜	6¼	6⅜	+⅛
22⅜	17¼	AdaEx	1.90e	9.6		70	20	19⅞	19⅞	
33⅜	17⅛	AdmMl	.40	1.6	11	16	25	25	25	+¼
20⅝	12⅛	AdvSys	1.45t	11.	12	40	13¾	13¼	13¾	+¼
32⅞	12⅞	AMD				1101	14¾	14⅛	14½	+½
12⅝	5⅜	Adobe n				245	6⅜	6¼	6⅜	-⅛
16⅝	13¾	Adob pf	1.84	12.		4	15¼	15¼	15¼	+⅛
20¼	15¼	Adob pf	2.40	13.		33	18	17⅞	18	+⅛
18⅝	7⅝	Advest	.12a	.9	10	38	13¾	13⅝	13⅝	-⅛
[illegible]										

Continued on Page 43

NYSE COMPOSITE CLOSING PRICES

Continued from Page 42

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
62¼	34⅞	PacTels	3.04	5.7	11	2086	53⅝	53	53½	−⅛
38	27⅞	Pacitcp	2.40	6.7	11	3610	36½	36	36	−⅝
35¾	20⅛	PainW s	.52	1.6	17	1493	33½	32⅞	33½	+¾
35	25⅞	PainW pf	2.25	7.2		44	31⅝	31	31¼	−¼
6½	4¼	PanAm				3261	5⅞	5⅝	5¾	+⅛
3⅜	1⅝	PanA wt				295	2	1⅞	2	
24⅞	13	Pandckn	.20	1.3	14	294	16⅛	15¾	15⅞	−¼
26¼	24¼	PanEC n				1339	25⅝	25⅜	25⅝	
28⅛	14⅝	PanIll n			13	59	18⅛	18	18⅛	+⅛
36	19½	Panseph			17	19	29¼	29	29¼	−⅛
11	4⅞	Pardyn				21	5½	5⅜	5⅜	−⅛
5⅛	2⅞	ParkDrl	.04	1.2		47	3⅜	3¼	3⅜	
30½	20¼	ParkH s	.80	3.0	13	28	26⅝	26¼	26⅝	+⅛
4¼	2⅝	PatPtr s				56	3	2⅞	3	+⅛
19⅝	9½	PayNP	.40	3.7	9	78	10⅞	10⅝	10⅞	+¼
27½	13½	PayCsh	.16	.9	14	1002	17¾	17	17¼	−½
¾	7-32	Pengo				194	9-32	¼	9-32	
62	46⅝	PenCen			24	113	58¼	57½	57¾	−¾
86¾	46⅝	Penney	2.48	3.3	13	402	74⅞	73⅞	74½	+½
43⅝	24¼	PaPL	2.60	7.1	14	487	36⅞	36⅝	36¾	−¼
53⅜	38	PaPL pf	4.40	8.4		z300	52⅛	52⅛	52⅛	−⅞
53⅜	37	PaPL pf	4.50	8.8		z600	51⅞	50	51⅛	−⅞
30¼	26	PaPL dpr	2.90	9.9		16	29¼	29	29¼	
105½	94	PaPL pf	9.24	9.0		z10	103	103	103	+1⅛
111½	103	PaPL pr	13	12.		z100	110	110	110	
59	36	Penwlt	2.20	4.5		21	49	48⅝	48⅝	
34¾	22⅝	Penw pr	1.60	5.5		16	29½	29¼	29¼	
[illegible]										

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
72¼	45¼	Xerox	3	5.5	17	743	54⅞	53¼	54⅞	+⅜
58¼	54	Xerox pf	5.45	9.6		9	56⅞	56⅞	56⅞	
28¾	20⅝	XTRA	.64	2.8		59	22¾	22½	22¾	−¼
17⅝	13½	Yorkin n				58	17¼	17	17¼	+⅛
39	27	ZaleCp	1.40	4.1		1	34⅝	34⅝	34⅝	−⅛
9½	3	Zapata	.05j			285	3⅛	3	3	
43⅞	21⅛	Zayre s	.32	1.5	14	2484	21¼	d20⅞	21	¼
17	9¾	Zemex	.40	3.0	14	17	13⅝	13⅛	13¼	−⅜
29⅞	16¼	ZenithE				189	20¾	20⅝	20⅝	
18¼	8	ZenLb s			12	464	8⅞	8⅝	8¾	
22⅝	12⅝	Zero s	.29	2.2	13	112	13⅝	13⅛	13⅛	−¼
45¾	32¾	Zurnln	1.32	3.5	14	19	38	38	38	+¼
10⅝	10	Zweig n				457	10⅛	10	10⅛	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

OVER-THE-COUNTER Nasdaq national market, closing prices

Stock	Sales (Hnds)	High	Low	Last	Chng
[illegible]					

Continued on Page 41

FINANCIAL TIMES
WORLD STOCK MARKETS

WALL STREET

Prices edge higher on low volume

WITH WALL STREET largely deserted because of the Columbus Day holiday and Yom Kippur, share prices edged higher in the quietest trading in almost two years, *writes Roderick Oram in New York.*

The Treasury bond market was closed leaving corporate and municipal bonds showing little change on low volume. Some banks and other organisations were also closed for the day on which a public holiday coincided with the holiest day in the Jewish calendar.

The Dow Jones industrial average of blue chip stocks closed up 5.21 at 1,798.38. The New York Stock Exchange composite index improved a marginal 0.19 points to 135.89 although the Standard and Poor's index of 500 stocks was off 0.44 at 235.04.

NYSE trading of 55m shares was the quietest day since December 26, 1984. Declining issues outnumbered advancing by 232 to 220 with 246 unchanged.

Blue chips were mixed. Sears Roebuck edged $¼ higher to $41⅝, General Motors was ahead $⅜ to $67¾, Minnesota mining and Manufacturing gained $1 to $103 while Eastman Kodak slipped $⅛ to $56 and United Technologies fell $1⅝ to $40 after it reported lower profits.

The main event was IBM's announcement of third quarter profits of $1.76 a share against $2.40 a year earlier. The decline was broadly in line with analysts forecasts which were hastily revised late last week when IBM said overseas sales were slowing.

The shares rose briefly on the news by $1¼ but the upturn was short lived, however, and the price fell to a loss on the day of $1⅛ to $122. The shares had fallen about $11 late last week on heavy volume.

NCR, one of IBM's competitors, similarly disappointed the marketwith profits ahead by only 3 cents to 75 cents a share in the quarter. Its shares lost $1⅛ to $44¼.

Among other high technology stocks, Teledyne fell $1⅞ to $310⅝ on news of quarterly profits of $5.91 a share against $8.51, TRW tumbled by $4¼ to $88 despite a return to profits, and Honeywell was unchanged at $67½.

The US bond market was closed for a national holiday. Markets in Hong Kong and Canada were also closed.

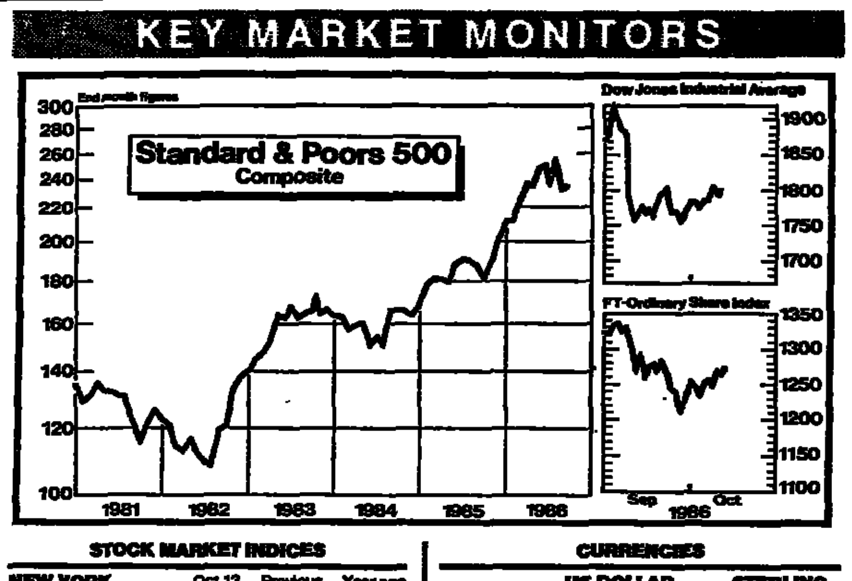
Inland Steel rose $1¼ to $19½. An article in Barron's, an influential financial magazine suggested that the worst might be over for the company in contrast to other steelmakers such as LTV, which is operating under Chapter 11 bankruptcy protection, and USX which is the object of a takeover hid. Alleghany Corporation eased $½ to $104. Its Chicago Title and Trust subsidiary has agreed to buy Safeco's title insurance unit for about $85m.

Although the government bond market was closed, bond futures were traded in Chicago. Prices on the December and March contracts eased about ½ of a point by lunchtime but recovered to just below the opening levels.

Following last week's dearth of economic news, several key figures this week will indicate how the economy performed in September. Retail sales probably grew strongly in the month, helped by car makers low cost financing programmes. But industrial production, business inventories and factory utilisation figures will likely show a weak trend.

In the corporate bond market, First Boston is due to price today (Tuesday) its record $4bn note issue backed by General Motors car and light truck loans. The largest issue ever by a non-government barrower on Wall Street, the Asset Backed Obligations are likely to be finely priced to yield between 70 and 80 basis points over Treasury issues of similar maturity.

KEY MARKET MONITORS



STOCK MARKET INDICES

	Oct 13	Previous	Year ago
NEW YORK			
DJ Industrials	1,798.37	1,793.17	1,339.94
DJ Transport	829.38	824.13	647.47
DJ Utilities	198.76	198.18	154.08
S&P Composite	235.91	235.48	184.28
LONDON			
FT Ord	1,275.4	1,265.4	1,028.8
FT-SE 100	1,612.3	1,599.4	1,322.3
FT-A All-share	794.94	789.46	643.71
FT-A 500	870.58	864.05	705.34
FT Gold mines	322.2	319.3	294.8
FT-A Long gilt	10.30	10.29	10.16
TOKYO			
Nikkei	17,338.73	closed	12,949.2
Tokyo SE	1,462.14	closed	1,037.64
AUSTRALIA			
All Ord.	1,338.7	1,329.9	1,033.4
Metals & Mins.	706.0	699.7	527.2
AUSTRIA			
Credit Aktien	230.29	231.79	203.32
BELGIUM			
Belgian SE	3,792.72	3,810.21	2,510.27
CANADA			
Toronto			
Metals & Minls	closed	2,134.62	1,837
Composite	closed	3,034.0	2,618.1
Montreal			
Portfolio	closed	1,529.48	126.81
DENMARK			
SE	193.63	194.04	231.12
FRANCE			
CAC Gen	388.70	386.9	207.5
Ind. Tendance	150.90	150.60	75.3
WEST GERMANY			
FAZ-Aktien	660.99	669.49	542.04
Commerzbank	1,977.70	2,006.2	1,586.6
HONG KONG			
Hang Seng	closed	2,279.52	1,583.55
ITALY			
Banca Comm.	754.40	756.43	404.87
NETHERLANDS			
ANP-CBS Gen	274.40	277.20	210.9
ANP-CBS Ind	276.90	278.40	185.0
NORWAY			
Oslo SE	374.89	374.73	370.76
SINGAPORE			
Straits Times	894.03	887.31	757.15
SOUTH AFRICA		Prev	Year Ago
JSE Golds	—	closed	1,056.2
JSE Industrials	—	closed	975.3
SPAIN			
Madrid SE	198.75	198.45	86.48
SWEDEN			
J & P	2,496.87	2,526.68	1,350.12
SWITZERLAND			
Swiss Bank Ind	559.70	560.70	486.7
WORLD	Oct 10		
MS Capital Int'l	346.70	346.6	225.5

COMMODITIES

(London)	Oct 13	Prev
Silver (spot fixing)	394.50p	392.70p
Copper (cash)	£917.25	£920.50
Coffee (Nov)	£2,232.50	£2,202.50
Oil (Brent blend)	$13.95	$14.25

GOLD (per ounce)

	Oct 13	Prev
London	$432.25	$431.625
Zurich	$432.625	$431.625
Paris (fixing)	$430.59	$431.66
Luxembourg	$431.50	$428.50
New York (Dec)	$437.20	$434.50

CURRENCIES

(London)	US DOLLAR Oct 13	Previous	STERLING Oct 13	Previous
$	—	—	1.4345	1.4335
DM	1.9795	1.9865	2.8375	2.8475
Yen	154.25	154.375	221.25	221.5
FFr	6.4850	6.5075	9.2925	9.3300
SFr	1.6140	1.6180	2.3150	2.3200
Guilder	2.2355	2.2435	3.2075	3.2150
Lira	1,370	1,371	1,965.25	1,965
BFr	41.05	41.25	58.85	59.15
C$	1.3875	1.3865	1.9915	1.9875

INTEREST RATES

Euro-currencies (3-month offered rate)	Oct 13	Prev
£	10 15/16	10⅞
SFr	4	4⅛
DM	4⅝	4⅝
FFr	8 7/16	8⅜
FT London Interbank fixing (offered rate)		
3-month US$	5 15/16	5⅞
6-month US$	5 15/16	5⅞
US Fed Funds	closed	5⅞
US 3-month CDs	closed	5.725
US 3-month T-bills	closed	5.19

Treasury Index

Maturity (years)	Return index Oct 13*	Day's change	Yield	Day's change
1–30	156.46	−0.17	7.04	+0.02
1–10	149.98	−0.01	6.67	+0.01
1– 3	140.86	+0.10	6.18	+0.00
3– 5	152.71	−0.02	6.84	+0.02
15–30	179.87	−0.73	8.26	+0.05

Source: Merrill Lynch

US BONDS

Treasury		October 13* Price	Yield	Prev Price	Yield
6⅝	1988	closed		100 11/32	6.135
7⅝	1993	closed		101 15/32	7.106
7⅛	1996	closed		100 15/32	7.318
7¼	2016	closed		95 15/32	7.64

Source: Harris Trust Savings Bank

Corporate	October 13* Price	Yield	Prev Price	Yield
AT & T 3⅜ July 1990	91.795	6.400	91.779	6.400
SCBT South Central 10⅜ Jan 1993	107⅞	9.375	107.25	9.362
Phibro-Sal 8 April 1996	98	8.309	99	8.153
TRW 8⅜ March 1996	101⅝	8.550	102	8.434
Arco 9⅜ March 2016	105⅛	9.346	105.75	9.298
General Motors 8⅛ April 2016	89⅝	9.188	89.75	9.133
Citicorp 9⅜ March 2016	97	9.683	97.5	9.630

Source: Salomon Brothers
Yield calculated on a semi-annual basis

FINANCIAL FUTURES

CHICAGO	Latest	High	Low	Prev
US Treasury Bonds (CBT) 8% 32nds of 100%				
Dec	95-21	95-24	95-15	96-06
US Treasury Bills (IMM) $1m points of 100%				
Dec	94.98	94.99	94.98	95-00
Certificates of Deposit (IMM) $1m points of 100%				
Dec	n/a	n/a	n/a	n/a
LONDON				
Three-month Eurodollar $1m points of 100%				
Dec	94.15	94.17	94.14	94.19
20-year Notional Gilt £50,000 32nds of 100%				
Dec	111-15	112-09	111-40	112-26

* Latest available figures

LONDON

Blue chips lead the upturn

INTERNATIONAL blue chips opened London's new trading Account firmly yesterday and the FT Ordinary share index gained 12.9 to 1,612.3. The more broadly-based FT-SE 100 added 10.0 to 1,275.4. But Government bonds drifted lower.

With sterling dull, progress at the Opec meeting uncertain, US interest reduced by Columbus Day and attendance in London markets affected by the Jewish holiday, turnover in both gilts and equities was below par. The securities markets also traded sluggishly.

City of London fears that UK interest rates may be forced higher to defend sterling remain, despite the optimism expressed at the end of last week.

Government bonds opened lower and gave further ground later, ending with net losses of around ½ point and in the absence of demand the Government broker was unable to sell any of the £800m taplet stocks announced on Friday.

Among equities, there was brisk trading in the newly-issued shares of Trustee Savings Bank (TSB)

Chief price changes, Page 41; Details, Page 40; Share information service, Page 38–39.

AUSTRALIA

A LATE BURST of support for industrial issues overcame early selling among gold stocks in Sydney where the market closed with modest gains and the All Ordinaries index gained 7.8 to 1,338.8.

Strong demand for food, banking and media issues spilled over into the resources sector as bargain hunters helped gold stocks retrace early heavy losses in moderate trading, brokers said.

The higher demand for industrials was attributed to a shortage of quality stock, a stable local currency and hopes of a cut in domestic interest rates.

BHP gained 6 cents to A$8.62, CSR shed 7 cents to A$3.15 and Bell Resources dropped 5 cents to A$4.45.

Adsteam rose 50 cents to A$13.10, while Arnotts put on 20 cents to A$5.20.

Among banks ANZ gained 10 cents to A$5.54 and Westpac 5 cents to A$4.75.

Heavyweight miners found late support. CRA added 10 cents at A$7.90 following a deal with its UK parent to sell some of its stake to large Australian institutions.

SOUTH AFRICA

THE ABSENCE of any definite leads caused Johannesburg to close narrowly mixed after the long weekend break, with no clear direction apparent.

Dealers said trading was thin and interest slight and that investors seemed to be waiting for a clear on the bullion price.

In golds Southvaal put on R2 to R190 while Vaal Reefs was R2 cheaper at R389. Driefontein slipped 25 cents to R77.

The cheaper, more speculative gold shares mirrored the performance of the better quality stocks.

Elandsrand slipped 25 cents to R32.75 but East Rand Proprietary Mines was steady at R33.25. Among diamonds De Beers gained R1.25 to R34.50.

In platinums, Rustenburg dropped R1.25 to R51.25 and Impala gained R1 at R51.

SINGAPORE

A MIXED morning session gave way to increased buying and short covering in Singapore, where prices closed generally higher and the Straits Times index gained 6.72 to 894.03.

Prices were uncertain during the morning as profit-taking alternated with some buying interest but more bargain hunters came in later to buy quality stocks and blue chips.

Volume remained robust and the market showed no signs of a correction, despite the big advances of the closing three days of last week when the Straits Times index rose 65.35.

UOL topped the actives with a turnover of 3.5m shares and put on 4 cents to S$1.72, while its parent UOB fell 10 cents to S$4.84.

TOKYO

Investors take to sidelines

INSTITUTIONAL and individual investors were driven to the sidelines in Tokyo yesterday following the failure of the US-Soviet mini-summit in Iceland at the weekend, and share prices tumbled almost across the board, **writes Shigeo Nishiwaki of Jiji Press.**

A wave of selling depressed large-capital stocks, blue-chips, and issues related to the government's fiscal investment and loan programme, while some stocks with hidden incentives were sought in small lots. The Nikkei average shed 311.50 points from last week's close to 17,338.73.

Volume dwindled to 243.69m shares from last Thursday's 481.59m. Declines led advances by 552 to 239, with 136 issues unchanged. The Tokyo stock market was closed on Friday and Saturday for a public holiday and market holiday, respectively.

The market did not respond to buy orders for blue chips placed by an investment trust company in early trading.

Investors and securities houses' dealing sections were inclined to wait and gauge the impact of the Reykjavik summit on the US and European stock markets.

Hitachi, supported by major securities houses' buying, rose Y10 to Y1,140 in early trading, matching its all-time record of September 29. It later came under heavy selling pressure and finished Y50 lower at Y1,080. Hitachi was the most active stock with 17m shares changing hands.

Hitachi's fall drove other general electric appliance makers lower, with Toshiba losing Y35 and Y722 and Mitsubishi Electric Y24 to Y514.

Small-lot selling dampened blue-chips. Fujitsu, the fourth most active stock with 8.76m shares, declined Y30 to Y1,010, Matsushita Electric Industrial Y20 to Y1,780, NEC Y60 to Y2,240 and Fuji Photo Film Y80 to Y3,040.

Large-capital stocks lost popularity. Tokyo Gas, the second busiest issue with 14m shares traded, plunged Y80 to Y1,090. Ishikawajima-Harima Heavy Industries, fifth with 7.60m shares, fell Y25 to Y575 and Nippon Kokan, seventh with 5.10m shares, dropped Y14 to Y288.

Tokyo Electric Power lost Y170 to Y7,850 and Kansai Electric Y150 to Y3,650.

Issues related to the government's fiscal investment and loan programme fared poorly, along with financial issues. Taisei Corp dipped Y30 to Y940 and Nomura Securities Y120 to Y3,310.

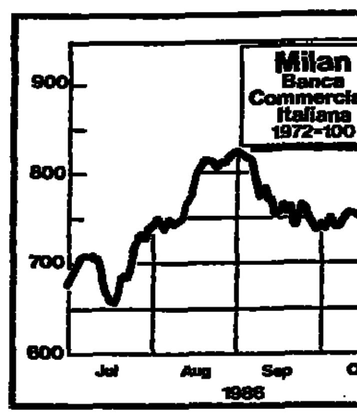
But some issues with hidden incentives attracted small-lot speculative buying. Teijin advanced Y21 to Y700 and Casio Computer Y60 to Y1,360.

Bond prices fell sharply and affected small-lot selling triggered by the uncertain market outlook.

On the bond futures market, December contracts dropped Y0.38 to Y102.72, depressed by the unsuccessful Iceland talks. This sparked small-lot selling on the cash market.

The yield on the benchmark 6.2 per cent government bond, maturing in July 1995, rose to 4.805 per cent from Thursday's 4.740 per cent.

But dealers said that no sharp price fall was expected because buy orders were observed for the benchmark issue when its yield came into the 4.800 per cent.



EUROPE

Sharp fall in bonds stalls Frankfurt

LAST WEEK'S torpor spilled over into this week's first day of trading and the leading European bourses recorded little movement in a lacklustre session. The sole excitment of the day was seen in West Germany's bond arena, where prices dropped sharply in heavy selling.

Frankfurt felt the brunt of domestic and foreign investor activity in the bond market, where longer-dated maturities dropped by as much as 135 basis points and the average fall stood at around 80 basis points.

Sentiment was dampened by comments at the weekend from Mr Gerhard Stoltenberg, West German Finance Minister, which were interpreted as ruling out an early cut in interest rates. The mood was also affected by the closure of the bond market in the US. Dealers appeared concerned that the strong D-Mark and weaker dollar would undermine the currency gain potential of West German bonds.

The Bundesbank bought DM 129.5m worth of domestic paper in Frankfurt to stop prices from falling any further after selling DM 45.2m on Friday.

The Government's 6 per cent 2016 loan stock led the losers, slipping 135 basis points to 96.50.

In the stock market, dealing was quiet with prices managing to recover some of the day's lost ground but remaining below Friday's closing levels.

The Commerzbank index, calculated at mid-session, dropped 28.5 points to 1,977.7 but investors were reluctant to take advantage of the lower levels because of uncertainty over the bourse's direction. International and blue-chip stocks were hit by the dollar's drop to near six-year lows against the D-Mark.

The only issue to advance on the day was utility group Rheinisch-Westfälisches Elektrizitätswerk (RWE), which added DM 10.50 to DM 215.50. The move was attributed to news last week that the company had suspended plans to bring the Mülheim-Kärlich nuclear reactor on stream.

Milan was mixed as the market adjusted itself ahead of the monthly settlement day on Wednesday.

Montedison continued on centre-stage, recovering part of the ground lost on Friday following the announcement that the Ferruzzi group had raised to 14.5 per cent from 1.58 per cent its stake in Montedison. The issue ended at L3,860, up L80 from Friday.

Generali, responding to rumours of possible changes in the holders of significant stakes, rallied to L127,550 after an advance of L1,600 but among industrials Fiat fell L180 to L15,100 despite increased support from politicians and trade unions for its plan to takeover Alfa Romeo.

Zurich was narrowly mixed with activity becoming a little more lively in the last few minutes of trading, benefiting banks and insurers.

Blue-chip registered shares saw some selective buying – only Swiss investors are allowed to hold registered shares. Swissair advanced SFr 10 to SFr 1,300 and Crédit Suisse SFr 20 to SFr 3,720.

Bond investors kept to the sidelines and trading was quiet and steady.

Paris was calm and slightly hesitant ahead of the release of the latest preliminary retail price index for September, which is expected to show a rise of about 2 to 3 percentage points.

Engineering and retailing issues drifted lower while some food issues recorded slight gains.

Brussels was weaker and **Amsterdam** ended a poor session at lower levels as investors absented themselves during this week's autumn school holidays.

Stockholm declined after last week's record levels as trading turned weak and volume began to thin. Alfa Laval, the farm engineering group,

Oslo and **Madrid** both turned slightly firmer.

SECTION III
FINANCIAL TIMES SURVEY

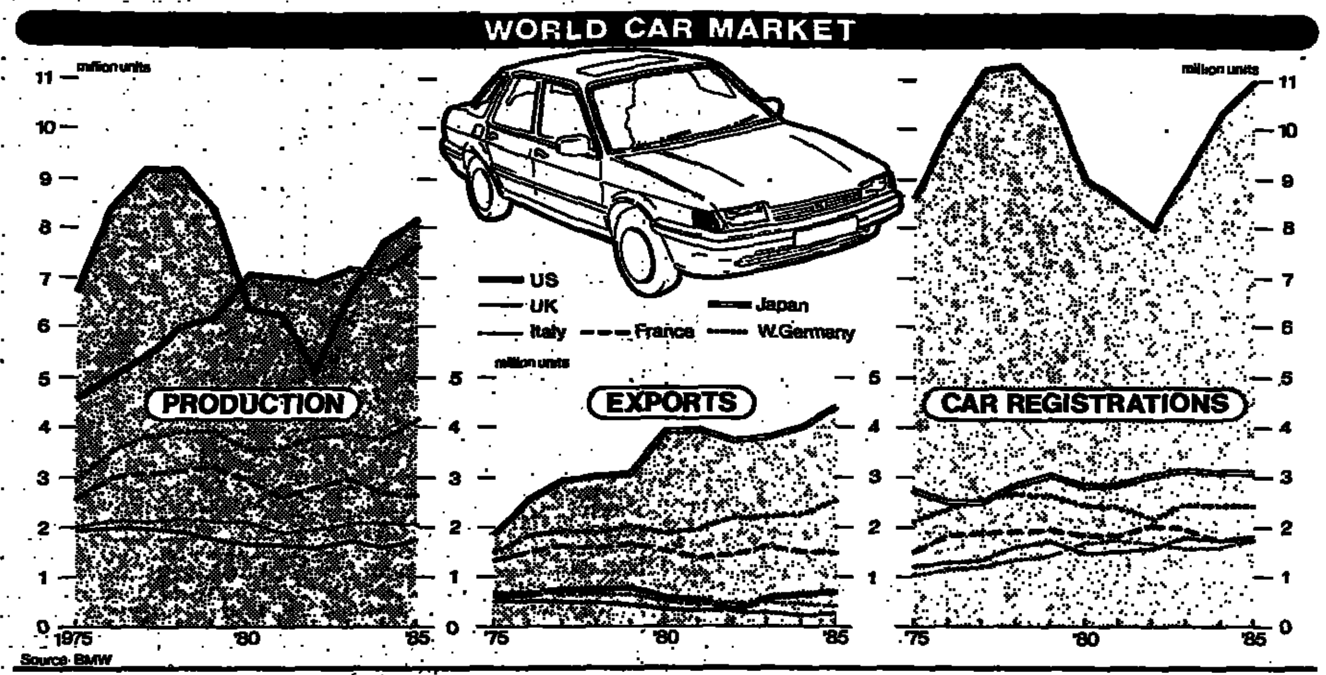
MOTOR INDUSTRY

European car producers are now recovering strongly while the US, hit by a strong dollar, has lost its " honeypot " image and is chasing cheaper parts.

Accelerating on road to change

By Kenneth Gooding

Motor Industry Correspondent



FOUR KEY trends are apparent in the world's automotive industry as it continues along the path of major and expensive change:

●The financial recovery of the European producers has been faster and stronger than most observers previously dared to predict.

●Restructuring of the West European industry has been going through an active phase because governments are now less willing to pay the high price of protecting motor industry jobs.

●The US, which not so long ago provided 30 per cent of global car sales but 50 per cent of the profit, is no longer the honeypot it once was following the sharp fall in the value of the dollar.

This will have its impact on those European producers who have been exporting high-priced luxury cars to the US and, particularly, on the Japanese who export over 1m cars a year to the US.

●Meanwhile, the "big three" US car manufacturers, General Motors, Ford and Chrysler, have taken strategic decisions to source many more components and small cars from low-cost suppliers in the Far East. South Korea and Taiwan look certain to become reasonably large players in the industry because of the support they are getting from the Americans.

Not so long ago the financial state of the European industry was a real cause for concern. Some bankers became seriously worried about the loans they had made to one or two of the major companies.

Their patience is now being rewarded, however. The manufacturers have cut costs dramatically in the face of the extreme competition—fuelled by excess capacity in Europe—and this is beginning to pay dividends.

Most of the specialist producers, BMW, Mercedes (Daimler-Benz), Volvo and Saab, remained profitable during the price wars of the early 1980s and now the volume producers are recovering fast.

Peugeot and its subsidiary Citroen have joined those companies which are either breaking even or making profits again: Fiat Auto, Ford of Europe and Volkswagen-Audi. There is growing confidence that Renault and General Motors-Europe, the Opel-Vauxhall group, will hit their targets and reach break-even in a year or two.

The US multi-nationals, Ford and GM, have noticeably eased back their aggressive, go-for-share policies in the past year which has helped towards the European industry's recovery.

As Mr Kenneth Whipple, the new chairman of Ford of Europe, says, there has to be a balance between share and profit. Ford needs a certain level of output to cover its investment in new products, "but we will resist the temptation to chase that extra little piece of share if it means a big drop in margins."

The truce in the war between the two American companies is, however, something of a bonus.

Apart from the cost-cutting, the main factors accelerating the European industry's financial recovery are lower energy prices (energy accounts for a big chunk of production costs) and lower interest rates which have eased the burden created by the companies massive debts.

Mr John Lawson, director of the automotive team at DRI Europe, points out that the drop in the oil price has enhanced the real income of consumers "who, as usual, have put the car industry in the vanguard of the consumer boom."

Consequently, DRI expects the West European car sales record set in 1979 to be beaten by 500,000 this year — enough extra cars to keep two very large assembly plants and one engine factory fully occupied.

DRI also suggests that the recovery in the volume producers' fortunes will bring the West European industry a net profit of 2bn ECUs (about $2bn) in 1986, up from a 640,000 ECUs profit last year and a net loss of 770,000 ECUs in 1984.

Complaints about excess capacity in Europe are fewer these days and considerable new capacity is being installed, apart from that being added every time factories are modernised and bottlenecks cleared.

BMW, Daimler-Benz, Volvo and Saab all have capacity additions under way, and VW-Audi chairman Mr Carl Hahn insists that his group will need all the extra capacity acquired with Seat, recently bought from the Spanish government.

Seat was one of Europe's problem companies and the Spanish government has been attempting for some years to find it a "big brother" to replace Fiat on which it relied for many years but which shrank from putting in more money in 1980 — a time when the Italian group was deep into the financial mire itself.

Restructuring of the European industry is due to continue with the absorption of Alfa Romeo, another huge loss maker and perennial thorn in the side of the Italian government, by either Ford or Fiat who are squabbling over the company.

Fiat does not relish the prospect of having a really strong competitor in Italy. Ford seems to feel that, however good its technology might be, a volume producer will not be able to attract those customers who look for someting exclusive and with a distinctly up-market or sporty image. So the Alfa Romeo name, as one of the few distinctive marques left available, has an attraction for Ford.

The American group sought Austin Rover, the state-owned British cars company, for similar reasons — it thought there was considerable potential to develop the MG and Rover marques — but also to tighten its grip on the UK car market, where it already has about 30 per cent, and gain a clear lead in total West European car sales.

European car market leadership has been achieved instead by VW-Audi which was ahead even before consolidating that position with the Seat acquisition.

Forced by an upswell of patriotism to back away from selling Austin Rover to an American group, the UK government installed a new executive chairman and chief executive at the holding company, formerly BL but now called the Rover Group, to see if a change of direction could put the cars subsidiary back on course for financial recovery. The government's ultimate objective remains to return Austin Rover to the private sector.

Mr Graham Day, the new Rover chairman, is being urged from many quarters to build on Austin Rover's association with Honda which this year will lead to Austin Rover producing some of the Japanese company's models for sale through Honda's dealer network in Britain.

This, together with the fact that Nissan has announced it will move to the second phase of its project in the north east of England, and by 1991 will increase output to 100,000 a year, has created a sense of urgency in the European industry about how to deal with these Japanese "transplants."

The Europeans assume that Toyota will follow Nissan before long (with Portugal as the front-runner to get that company's assembly plant) and fear that, unless put under political pressure, the Japanese will ship out most of components from Japan and keep all research and development there.

Ford's response to this threat, put by Mr Derek Barron, chairman of Ford of Britain, is that the Japanese should be forced to incorporate at least 80 per cent of European Community content into each vehicle before it qualifies for unimpeded access to the Common Market.

The content should be measured against the cost of the car, not by ex-factory value, and carefully monitored, he adds.

Ford's proposals have received enthusiastic support from the French companies Peugeot-Citroen and Renault.

The major concern of the Japanese companies, however, is the decline in the value of the dollar compared with the yen. This decline has already begun to make itself felt on the Japanese companies' profits.

Toyota, biggest of the Japanese motor groups, suffered a 25 per cent fall in unconsolidated net profit for the year to March, 1986, and warned that a further decline was to be expected this fiscal year.

Nissan, the second-largest Japanese car maker, suffered a 56 per cent slump in consolidated net profit for the year to March. It has discreetly let it be known that there might even be a operating loss for the current financial year.

There is considerable debate about whether the dollar's fall has wiped out the Japanese car makers' cost advantage in the US. The Japanese were estimated to be able to land a small car in the States for $2,500 less than it cost the domestic producers to build one.

Chrysler's president, Mr Joe Cappy, says the differential has been all but wiped out by the rise of the yen. But the team working on the Future of the Automobile project at the Massachussetts Institute of Technology estimates that a fall from 240 yen to the dollar to 150 cut the Japanese cost advantage by only $750.

Certainly there is no question of any major Japanese group being brought to its knees by the upward movement of the yen. Balance sheets are strong, with few debts, but some observers suggest that both Toyota and Nissan might reduce slightly their heavy spending on research and development.

The new relationship between dollar and yen also justifies the Japanese groups' gradual move up-market to the production of higher-priced, more-highly-specified models.

It is also making the new car production capacity being installed by the Japanese in

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Joint Ventures

Teamwork solving problems

A VAST WEB of joint ventures and other associations is fast developing between the world's car makers. In an industry where economies of scale still count in spite of the advances in new technology, the manufacturers have been teaming up to solve particular problems.

Take a recent example. Ford, seeking a solution to its increasingly difficult situation created by Brazil's economic problems, approached Volkswagen in Argentina to see if a joint car production deal could be worked out.

The idea had such appeal that the companies quickly included Brazil, the Latin American country which promised so much but in recent years has delivered so little, in the conversations.

If the deal is eventually done, Ford and VW should be able to benefit from combining production efforts and the two might share the development and production of a new mid-sized model but contiue to market separate ranges of cars.

VW meanwhile has been investigating the possibility — as part of its export commitment to the Brazilian government — of exporting the medium trucks it builds there.

It found a willing partner in North America in Paccar, the Kenworth and Peterbilt heavy truck producer, which believes the Brazilian models will go a long way to keeping its dealers from taking on competing franchises — particularly those for Japan's medium trucks. So, as should be the case with all good deals, there is something in the arrangement for both parties.

A key element in the latest rush of joint ventures in the motor industry has been a change of attitude by the US government. Not so long ago it would not countenance any relationship, however vague, between major manufacturers in the same industry.

The power of the anti-trust legislation reached out beyond US borders and until recently seemed to prevent General Motors and Ford from taking part in any cooperative ventures in Europe as well as the States.

All that changed when GM was permitted to set up a joint company with Toyota, largest of the Japanese car makers, in California to produce cars from Toyota components for sale through GM's Chevrolet dealers.

That signalled the fact that, with certain restraints, the US car makers could do deals with their Japanese counterparts.

Since then there has been a flood of joint car production ventures announced in North America. Chrysler and Mitsubishi are to build a car factory in the US and share the output. GM and Suzuki will share a factory in Canada.

Ford has promised to take half the output of the plant Mazda is putting up in Michigan — but in this case has put up no equity.

Chrysler is to use some of the surplus capacity of American Motors, smallest of the US car companies. And two Japanese companies, Fuji, the Subaru car maker, and Isuzu will share a factory to assemble cars, trucks and four-wheel-drive vehicles in the States.

The new plants will add about 2.3m of new capacity in North America by 1990 and not all of them will be successful — the market cannot absorb so many cars of similar type in such a short time.

Many of the joint ventures set up at the end of the 1970s in Europe have not been particularly successful either.

There was, for example, Fiat's project with Saab to develop a large, up-market car. Halfway through the veture Alfa Romeo joined the party. The outcome has been the car Saab calls the 9000 and, from the Fiat stable, has come the Lancia Thema and Fiat Croma. Alfa Romeo's version has still to put in an appearance.

Initially the idea was for Fiat and Saab to share production of the components as well as the development work. But this admirable idea for producing components in larger and more economic volumes failed to make headway because neither Sweden nor Italy would give up the jobs the extra productivity would have involved.

Difficulties also dogged Fiat's joint venture with Peugeot to produce a highly fuel-efficient small petrol engine which Fiat launched as the Fire 1000.

Originally Peugeot agreed that the engine should be produced at two identical plants side by side in Italy. But when the Socialist government came to power in France it insisted that at least half the production be in France.

Then came one of those reversals of fortune that have become common in the motor industry. In 1980 when the project began, Fiat was in deep financial trouble while Peugeot was on the crest of a wave, having just bought Chrysler's European assets which, with the group's Citroen subsidiary, gave the French group West European market leadership.

By the time work was halfway through, Fiat was well into a near-miraculous return from the financial brink while Peugeot was stumbling under the weight of the Chrysler acquisition which turned out to be disastrous.

Fiat spent $330m to bring its version of the engine into production at Termoli in central Italy. Peugeot, strapped for cash, was not willing to find that kind of money.

Instead of the FFr 2bn it would have cost to put the joint-venture engine into production, Peugeot spent half that sum to convert an existing engine range, using some of the available machinery and tooling at the Douvrin factory in France (itself a long-time joint venture between Renault and Peugeot).

Two other European joint ventures which should have resulted in new automatic transmissions being available some time ago, have been causing the partners considerable embarrassment.

Technical rather than political problems have delayed the introduction of a continuously-variable automatic transmission (CVT) which was to have been shared by Fiat, in models such as the Uno, and Ford, in the Fiesta and Escort.

Van Doorne Transmissie, in which the Dutch government owns a majority interest, so far has not been able to produce in volume the steel belts and other components for the CVT — although transmissions made in early, small-scale production worked very well on the road.

Launch of the CVT is already about two years late and still there is no sign to an end to this sorry saga.

The two automatic transmissions which have been developed by Volkswagen and Renault — a small, four-speed unit for cars of the Polo, Golf, R5, R14 size and a larger, computer-controlled unit for the bigger Passat or R21 models — are at least a year late into the market.

The partners have already lost one customer as a result. Volvo of Holland was to have used the smaller transmission in its new, sporty 480 model but quickly switched to a ZF automatic once it became clear the VW-Renault unit would not be available on time.

In the light of the difficulties encountered by the Europeans when trying to make their joint ventures work, the achievement of Austin Rover and Honda in bringing their executive car cooperation to a successful conclusion seems positively miraculous.

Between them the Japanese group and the state-owned UK company jointly developed the luxury saloon which Honda calls the Legend and Austin Rover recently launched as the Rover 800 range.

The co-operation continues because Honda will build both versions in Japan and Austin Rover will make both in Britain and the two companies have extended their relationship to the development of a new medium-sized car.

For Honda this provides a way to get into car production in Europe without adding to the excess production capacity while Austin Rover will gain the benefits associated with low-cost Japanese production for the Rovers it will sell through its Japanese dealer network and in Australia.

The multi-national car producers in particular will have to be flexible, willing to take unusual action and become involved in complex associations of the Honda-Austin Rover type to function efficiently in the future.

As recent history shows, even the Japanese, renowned for their conservatism, have begun to resort to joint ventures and other associations in order to build themselves into genuine multi-nationals in the style of GM, Ford and Volkswagen.

Kenneth Gooding

World vehicle production

	1984 Total	1984 Passenger cars	1984 Commercial vehicles	1983 Total	1983 Passenger cars	1983 Commercial vehicles
1. General Motors—US	8,070,647	6,315,265	1,755,382	7,637,965	6,098,880	1,539,085
2. Ford Motor—US	5,348,906	3,685,576	1,663,330	4,727,592	3,416,008	1,311,584
3. Toyota—Japan	3,482,727	2,413,133	1,069,594	3,274,835	2,380,753	894,082
4. Nissan—Japan	2,727,568	1,936,335	791,233	2,625,760	1,934,281	691,479
5. Volkswagen—W. Germany	2,135,346	1,913,615	221,731	2,088,503	1,937,052	151,451
6. Renault—France	1,983,217	1,705,724	277,493	2,275,911	1,983,237	292,674
7. Chrysler—US	1,884,882	1,283,498	601,384	1,339,127	1,036,342	302,785
8. Peugeot-Citroen—France	1,747,740	1,563,989	183,751	1,793,097	1,608,191	184,906
9. Uaz—Soviet Union	1,675,000	800,000	875,000	1,650,000	780,000	870,000
10. Fiat—Italy	1,528,910	1,255,750	273,160	1,502,465	1,212,358	290,107
11. Mazda—Japan	1,133,321	764,309	369,012	1,171,350	861,580	309,770
12. Honda—Japan	1,127,608	982,379	145,229	1,087,777	913,023	174,754
13. Mitsubishi—Japan	1,095,156	547,838	574,318	974,705	523,754	450,951
14. Suzuki—Japan	689,871	164,058	525,813	631,310	137,528	493,782
15. Daimler-Benz—W. Germany	667,116	469,385	197,731	677,933	483,359	194,574
16. Daihatsu—Japan	566,076	162,405	403,671	530,296	185,159	345,137
17. Fuji-Subaru—Japan	549,415	242,680	306,735	540,680	230,462	310,218
18. BL—UK	470,865	383,324	87,541	550,870	445,364	105,506
19. Volvo—Sweden	436,978	389,932	47,046	423,255	382,490	40,765
20. Isuzu—Japan	432,257	88,536	343,721	390,701	116,184	274,517
21. BMW—W. Germany	412,447	412,447	—	407,507	407,507	—
22. American Motors—US	391,408	215,188	176,220	343,096	229,833	113,263
23. Seat—Spain	278,855	255,324	23,531	250,039	223,887	26,152
24. Skoda—Czechoslovakia	225,775	173,480	52,295	220,301	172,106	48,195
25. Moskvitch—Soviet Union	205,000	205,000	—	200,000	200,000	—
26. Alfa Romeo—Italy	203,071	200,103	2,968	209,796	206,926	2,870
27. Polski Fiat—Poland	198,998	198,998	—	192,636	192,636	—
28. Zastava—Yugoslavia	183,602	174,519	9,083	154,122	145,448	8,674
29. Zaz Zaporejetz—Soviet Union	150,000	150,000	—	145,000	145,000	—
30. Hyundai—Korea	140,871	123,110	17,761	108,117	93,015	15,102
31. Trabant—E. Germany	140,000	120,000	20,000	143,300	123,300	20,000
32. Saab-Scania—Sweden	130,453	102,018	28,435	116,782	96,012	20,770
33. GAZ Volga—Soviet Union	130,000	130,000	—	125,000	125,000	—
34. Wartburg—E. Germany	85,000	65,000	20,000	85,000	65,000	20,000
35. International Harvester—US	84,340	—	84,300	58,629	—	58,629
36. Kia—Korea	75,004	—	75,004	63,638	136	63,502
37. Hino—Japan	60,844	—	60,844	52,129	—	52,129
38. Porsche—W. Germany	44,017	44,017	—	48,288	48,288	—
39. Daewoo—S. Korea	42,357	33,876	8,481	35,146	27,406	7,740
40. IMV—Yugoslavia	39,913	39,020	893	43,688	42,059	1,629
Total 40 manufacturers	40,975,561	29,709,831	11,265,730	38,896,346	29,209,564	9,686,782
Others	923,488	856,273	67,215	858,885	756,933	101,952
Total production	41,899,049	30,566,104	11,332,945	39,755,231	29,966,497	9,788,734

Source: Motor Vehicle Manufacturers Association of the US.

Protectionism

Japan still the bone of contention

"THE JAPANESE cannot expect to enjoy all the advantages of a protected market at home as well as the benefits from the free markets in Europe."

The comment comes from one of Western Europe's most enthusiastic supporters of free trade—Mr Eberhard von Kuenheim, chairman of BMW, the West German luxury cars group.

Ask the Japanese about protectionism and they point to the obvious trade barriers: an 11 per cent tariff on non-Community vehicles entering the Common Market compared with no tariff at all in Japan.

Yet something obviously is wrong with the system in Japan even if the car market is not protected by a tariff. Industrial nations with their own automotive industries generally import between 25 and 40 per cent of the cars sold in their domestic markets.

Last year 50,000 imported cars were sold in Japan—only 1.6 per cent of the 3.1m total market.

BMW is one of the most successful importers in Japan—it has the best-selling imported marque there and is outsold by only one other group, also from West Germany, Volkswagen-Audi, which wins top place with the two brands combined.

So BMW is well-versed in the Japanese art of protectionism. According to Mr von Keunheim, it takes subtle forms. For example, the rules governing technical inspection in Japan severely penalise cars sold in low volumes.

Whereas one, typical, example of a volume-produced car is accepted by the authorities, every single low-volume car (those where sales are not expected to be above 15,000 a year) has to be inspected.

Every imported BMW spends one and a half to two days with the inspectors. "You can imagine how many people we need to administer such a system," says Mr von Kuenheim.

"The Japanese say they are not being unfair because all low-volume cars—including Japanese cars—have to go through this procedure. But they have certainly found the right way to make things difficult for importers."

Another bone of contention, as far as BMW is concerned, is that the Japanese anti-pollution rules are very similar to those in the US, but not quite the same. "So we have to do the emission tests twice."

One of the major difficulties BMW has faced in Japan in the past has been the size of the "grey" import business parallel with the official. About 40 per cent of the BMW cars registered in Japan last year were unofficial imports.

Not only did they arrive through unofficial importers, they also failed to meet those stringent Japanese emission control rules. Their import, according to BMW, is allowed by the Japanese Ministry of International Trade and Industry as a measure of non-tariff protectionism, aimed at preventing official importers building up strong and profitable dealer networks in Japan.

Unofficial importers have been charging about 10 per cent less than official BMW dealers and the effect has been to weaken the financial position of the official network and to make the BMW franchise in Japan less attractive.

The protectionism practised against the Japanese by the car-producing Western countries is mainly far more blatant.

The US some years ago put a 14 per cent tariff on Japanese pick-up trucks and for the past five years there has been a "voluntary" restraint agreement covering the number of cars to be shipped to the States—an agreement which was extended recently to April 1987.

In Western Europe most of the major automotive countries protect themselves against Japanese car sales. In Italy they are held to 2,500 a year by a deal which pre-dates the Treaty of Rome.

The French government has made it quite clear to the Japanese—albeit informally—that Japanese car sales should not top 3 per cent of the market.

In these circumstances, the industry-to-industry agreement for the UK, which restricts Japanese car sales to about 10 per cent of the annual total, looks positively generous.

Spain and Portugal, which joined the Community only relatively recently, have used high tariffs to protect their car assembly operations from imports of all types, not just those from Japan. The tariffs are being reduced—but slowly.

This leaves West Germany as the one major West European market freely open to the Japanese. But for how long? Japanese car sales, well below 10 per cent of the German market at the end of the 1970s, advanced rapidly to reach more than 13 per cent in 1985 and by the end of June this year were up to 14.6 per cent.

Japanese cars on the road—1985*

(12.5m registered in last 10 years)	
Belgium	672,178
France	455,465
Italy	18,575
Netherlands	894,055
Spain	51,675
Sweden	263,290
United Kingdom	1,529,775
West Germany	1,766,155
Total	5,651,150

*Includes Nissan badged ARNA but excludes Alfa Romeo badged ARNA

Source: PRS

Mr von Keunheim says the Japanese could be close to crossing the "threshold of pain" which will spur the West German government to take action against them.

He insists the German motor industry would prefer that no protectionist measures be imposed because, like the Japanese industry, it exports more than half its total output and stands to lose more than any other country should a cars trade war break out.

As the remaining major "open" market in the Community, however, Germany should benefit the most from the latest self-imposed restraint by the Japanese.

Stung by criticism about a leap in the value of car exports to the Common Market in the first quarter of this year, the manufacturers, under pressure from the Japanese Ministry of International Trade and Industry, agreed to hold shipments to the Community this year to 1.1m, or about 10 per cent more than in 1985.

One way or another the Japanese have been left in no doubt that there is a limit to the number of built-up car imports the major Western markets will take without crying halt.

So they have started to move some assembly into the key countries. By 1990 the Japanese will have about 2.5m of annual car assembly in North America.

Nissan, second-largest of the Japanese car groups, recently announced it is to turn its "screwdriver" assembly plant in the UK into a major production centre, to turn out about 100,000 cars a year by 1991.

Its European rivals feel other Japanese groups will be bound to follow before long.

World car sales are certainly not growing fast enough to absorb this extra capacity and so far the Japanese have given no indication that they intend to cut capacity back home to compensate.

This has led to calls for ground rules to be set before the Japanese come piling into Europe in the same way that they have in the States.

The Europeans are well aware that the Japanese intend to keep as much value-added as possible in Japan when sending car kits for overseas assembly.

It is particularly important for the Japanese to keep engine and transmission manufacture in Japan because, whereas a modern car assembly plant might be able to break even at an annual production of 150,000, an engine or transmission factory needs to produce 500,000 a year to earn its keep.

The Japanese also want to keep research, development and engineering to themselves as much as possible.

Mr Derek Barron, chairman of Ford of Britain, suggests the time is ripe for the European car producers to ensure that the Japanese do not start out in Europe with too many special advantages.

He says that to qualify as "European" products, cars coming from Japanese-owned factories in Europe should be of at least 80 per cent European Community content. That content should not be measured, as it is today, by ex-factory value which can include marketing costs and even profit, but by the actual cost of the product.

Even research and development costs in each car should be paid for by a licensing fee of some sort and count in the import content, Mr Barron maintains.

This would encourage the Japanese to set up proper research and development facilities in Europe. And it would not be possible for them to reach 80 per cent European content under the Ford formula unless they manufactured engines and transmissions within the Community.

Ford also wants the system tightly monitored by the European Commission to make sure the Japanese stick to the rules.

The group is working hard to encourage the Commission to set up such a system and is attempting to get the European car producers to speak with one voice on the need for careful regulation of any Japanese car manufacturer setting up in Europe.

"You don't give them the keys to the kingdom unless they are willing to put down roots here. They should not have the benefits without the commitment," Mr Barron insists.

Which is where we came in.

Kenneth Gooding

THE INTERNATIONAL TOP TEN

GM

General Motors: Chairman, Roger Smith; President, F. James McDonald.
Headquarters: Detroit, Michigan.
Turnover: 1985 $96.4bn (1984 $83.9bn).
Net profit: 1985 $4bn ($4.5bn).
Worldwide vehicle sales: 9.3m of which 7.2m were cars.
Employees: 561,000.
Car production in Australia, Belgium, Brazil, Chile, West Germany, Malaysia, Mexico, New Zealand, Portugal, Spain, South Africa, UK, Uruguay, Venezuela, Zaire. Associates in Japan, Colombia, Kenya and South Korea.
Owns: 100 per cent of Opel in West Germany and Vauxhall in the UK; 38 per cent of Isuzu and 5 per cent of Suzuki in Japan.

Ford

Ford Motor. Chairman, Donald Petersen; President, Harold "Red" Poling.
Headquarters: Dearborn, Michigan.
Turnover: 1985 $52.77bn (1984 $52.4bn).
Net profit: 1985 $2.52bn ($2.9bn).
Worldwide vehicle sales: 5,550,500 including 4m cars.
Employees: 369,315.
Overseas production: Argentina, Australia, Brazil, Canada, Mexico, South Africa, Spain, UK, West Germany.
Owns: 25 per cent of Mazda.

TOYOTA

Toyota: Chairman, Eiji Toyoda; President, Shoichiro Toyoda.
Headquarters: Toyota City, Aichi Prefecture.
Turnover: Year to June 30, 1985, unconsolidated Y6,064bn (1984 Y5,472bn).
Net profit: unconsolidated June, 1985 Y308bn (Y251.5bn).
Worldwide production: 3,540,645 of which 2,569,285 were cars.
Employees: 61,665.
Overseas assembly/production: Australia, Brazil, Costa Rica, New Zealand, Peru, Portugal, Thailand, US.

NISSAN

Nissan: Chairman, Takashi Ishihara; President, Yutaka Kume.
Headquarters: Tokyo.
Turnover: Year ended March 31, 1986, consolidated Y4,627.5bn (1985 Y4,626.3bn).
Net profit: Year ended March 31, 1985 consolidated Y35.7bn (Y81.8bn).
Worldwide vehicle sales: 2,473,190 including 1,864,700 cars.
Overseas production/assembly: Australia, Italy (via joint venture with Alfa Romeo) Mexico, Peru, UK, US.
Owns: 90 per cent of Motor Iberica, Spain.

Audi

Volkswagen-Audi: Chairman, Carl Hahn.
Headquarters: Wolfsburg, West Germany.
Turnover: 1985 DM 52.5bn (1984 DM 45.7bn).
Net profit: 1985 DM 596m (DM 228m).
Worldwide sales: 2,398,195 including 2,179,595 cars of which 355,000 were Audis. 1985 total does not include 244,960 cars sold by Seat, now a subsidiary.
Employees: 259,045.
Overseas production: Argentina, Brazil, Mexico, Nigeria, South Africa, Spain, US, Yugoslavia. Cars made under licence by Nissan in Japan.
Owns: majority shareholding in Seat of Spain with option on outstanding shares.
Ownership: West German Federal Government owns 20 per cent but plans to dispose back to private sector. State Government owns 20 per cent.

RENAULT

Renault: Chairman, Georges Besse.
Headquarters: Boulogne-Billancourt, France.
Turnover: 1985 FFr 122.1bn (1984 FFr 117.5bn).
Net loss: 1985 FFr 10.3bn (loss FFr 12.5bn).
Worldwide vehicle production: 1,962,690 including 1,637,635 cars.
Employees: 79,530.
Overseas production: Manufacturing agreements in Argentina, Colombia, Portugal and Spain.
Owns: 46 per cent and has management control of American Motors of the US.
Ownership: Owned by the French Government.

CHRYSLER CORPORATION

Chrysler Corporation: Chairman, Lee Iacocca.
Headquarters: Detroit, Michigan.
Turnover: 1985 $22.73bn (1984 $19.5bn).
Net profit: 1985 $1.6bn ($2.4bn).
Worldwide vehicle sales: 2,157,375 including 2m cars.
Employees: 107,850.
Foreign production: Mexico.

PEUGEOT CITROËN

Peugeot-Citroen: Chairman, Jacques Calvet.
Headquarters: Paris, France.
Turnover: 1985 FFr 100bn (1984 FFr 91bn).
Net profit: 1985 FFr 543m (loss FFr 341m).
Worldwide vehicle production: 1,308,600. Including 804,200 Peugeots; 478,500 Citroens and 25,900 Talbots.
Overseas production: Chile, Italy, Nigeria, Portugal, Spain, UK.
Employees: 176,800.
Ownership: Michelin owns 9.2 per cent; Peugeot family has 37 per cent.

FIAT

Fiat Auto: Chairman, Umberto Agnelli; Managing director, Vitorio Ghidella.
Headquarters: Turin, Italy.
Turnover: 1985 L14,392bn (1984 L12,878bn).
Operating income: 1985 L1,322bn (L1,071bn).
Worldwide vehicle sales: 1,531,900 cars, including Lancia and Autobianchi models. (Commercial vehicles are produced by another Fiat subsidiary, Iveco).
Employees: 99,765.
Overseas production: Brazil. Cars made under licence in Argentina, Yugoslavia, Romania and Spain.
Ownership: The company is a subsidiary of Fiat SpA.

mazda

Mazda: Chairman, Moriyuki Watanabi; President, Kenichi Yamamoto.
Headquarters: Hiroshima, Japan.
Turnover: Year to October 31, 1985, consolidated Y1,669bn (1984 Y1,530bn).
Net profit: Y39.53bn (Y34.77bn).
Worldwide vehicle production: 1,193,629 including 815,047 cars.
Employees: 28,565.
Overseas production: Building a factory in Michigan, US, for production next year.
Ownership: Ford has 24.35 per cent.

Source: Society of Motor Vehicle Manufacturers of the US

Trade friction

Japanese makers trim exports to EEC

THE ABILITY OF Japan's Ministry of International Trade and Industry (MITI) to co-ordinate the efforts of the country's motor industry was graphically illustrated again this year.

In June MITI called on the nine car makers to limit voluntarily their exports to Western Europe, which had risen 92 per cent in value during the first four months of 1986 compared with the same months last year, to $1.64bn.

The car producers reacted quickly. In July car shipments from Japan to Europe fell by 19.8 per cent in volume.

It seems the Japanese car makers, under pressure from MITI, agreed to hold exports to the Common Market countries to about 1.1m this year, representing an increase of roughly 10 per cent on the 1985 total.

MITI was worried lest the Japanese car manufacturers advanced too far too fast into European Community markets and that the Common Market countries would at last take united action.

Statistics illustrating the automotive trade imbalance between Japan and the Common Market are hard to come by because each of the Community countries treats its figures in a different way.

But for vehicles only (no components or accessories) in 1980 Japanese imports to the Community were worth Ecu 2.41m while the Common Market exports totalled Ecu 0.28m. By 1984 (the latest statistics available) Japanese imports were costing the Community Ecu 4.88m while exports to Japan brought in only Ecu 0.65m.

Looking at Western Europe as a whole—17 major markets—Japanese new car registrations last year reached 1.14m, or 10.7 per cent of the total and twice as many only 10 years before. At the end of the first half of 1986 the Japanese share had risen steeply again, to 11.8 per cent or 727,500 cars, enough to keep four major European car plants profitably employed.

In return, the Japanese last year bought only 50,000 imported cars, a number representing two days' output by the Japanese industry.

The figures illustrate not so much the strength of the Japanese motor industry, but the country's vulnerability. Trapped in a group of islands with few physical resources, the Japanese have to export to survive. But they have chosen to concentrate their efforts. They export relatively few products in huge numbers—cars and motor cycles being among the chosen few.

In contrast, Western Europe trades in hundreds of products, services and commodities. Even small European companies will consider doing some export. In Japan only the very large enterprises seem willing to consider exporting.

The Japanese continue to build huge trade surpluses in motor industry products to the concern not only of their competitors in the West but also among governments in those countries which rely heavily on their domestic automotive industries for wealth-creation and the provision of jobs.

US car trade with Japan

(US$m)

	1980	1981	1982	1983	1984	1985
Japan's exports to the US	31,370	38,610	36,330	42,830	59,940	65,290
Japan's imports from the US	24,410	25,300	24,180	24,650	26,860	25,780
Trade balance	6,960	13,310	12,510	18,180	33,080	39,510
Japan's car & vehicle exports to the US	10,120	11,260	11,040	12,460	15,430	19,260
Japan's parts exports to the US	480	590	580	1,140	1,900	2,480
Total (A)	10,600	11,850	11,620	13,600	17,330	21,740
Japan's car imports from the US (B)	100	50	40	40	30	40
Car trade balance (A-B)	10,500	11,800	11,580	13,560	17,300	21,700

(B) Does not include commercial vehicles and automotive parts, but their quantities are insignificant.

Source: Japanese Min. of Int. Trade and Industry; Min. of Finance.

Between 1980 and 1985, Japan's total trade surplus with the US increased from $7bn to $39.5bn, according to MITI, or by 464 per cent. During the same period Japan's surplus in motor industry products—already well entrenched by 1980—increased from $10.5bn to $21.7bn, or by 107 per cent.

But, with the total Japanese surplus with the US heading for $50bn this year in spite of the steep drop in the value of the dollar against the yen, the American motor industry is becoming restive.

All the Japanese car companies, apart from Daihatsu, have set up or intend to set up assembly capacity in North America, but those plants will not cut the import bill very much—even if the Japanese reduce built-up car exports to the States to some extent to compensate (and so far they have shown no inclination to do so).

According to Ms Konomi Tomisawa, an economist at the Long-Term Credit Bank of Japan, although the first of the Japanese "transplants"—cars built in the US by Nissan, Honda and Toyota—have a nominal American content of 50 per cent, in reality about 80 per cent of their components are imported to the States from Japan.

This is reflected in the trade statistics which show that last year exports of Japanese motor industry components to the US grew by another 30 per cent in value to $2.48bn following a 67 per cent rise in 1984.

The strength of feeling in some parts of the North American industry is reflected in the view of Mr Harold "Red" Poling, president of Ford:

"Last year the (US) trade deficit was $130bn and about a third of that was with Japan. Despite the strengthening of the yen and the implications that holds, the projection this year is that the trade deficit will be $106bn to $170bn and $60bn or $70bn of that is going to be with Japan.

"That cannot continue much longer and one way or another the situation will have to be redressed. If the strengthening of the yen does not correct the situation then I think the mood of Congress is such that action will be taken."

When pressed, Mr Poling suggests the US government should attempt to reach agreement with Japan so that the unfavourable trade balance is reduced step by step over a given period of time.

If the results did not meet the objectives then action should be taken in the form of a tariff or duty or some device that will ensure the situation is redressed, he says.

"Let them (the Japanese) decide how they want to redress the situation. They can open their market, they can restrict their shipments and ship them elsewhere in the world. I think it is going to be a major issue in the (US) elections."

Kenneth Gooding

The US

Profits slip despite record sales

ENERGY PRICES may have fallen and the styles of the 1950s may be back in fashion in many US consumer markets, but the age of the traditional large American car does not appear to be returning.

In fact, as evidenced by the well-publicised troubles of General Motors—the company that had pinned the greatest hopes on a swing back to traditions among US consumers—the eight-cylinder rear-wheel driven passenger car may be going the way of the dinosaurs.

It was in response to unacceptably large inventories of 1986 cars—particularly in the highly profitable "standard domestic" section of the big-car market—that GM announced the unprecedented financing incentives which have thrown into total confusion all marketing expectations, production plans and financial forecasts in the US car industry this year.

Until the late summer imports were continuing to expand their market share—from 23 per cent in the first half of 1985 to 27 per cent in the first half of 1986. GM was not alone among the US manufacturers in continuing to lose ground to the Japanese and Europeans. In fact, Ford's market share declined in the first half of 1986 by 1.4 per point, against GM's 1.2 percentage points.

The reason GM's overstocking problems were so much more acute however, was that Ford and Chrysler had broadly resigned themselves to continuing retrenchment in setting their production targets. It was GM's perennial over-optimism about the saleability of its cars in the face of foreign competition that led to the costly financing war this autumn.

The consumer responded enthusiastically to GM's 2.9 per cent financing late in August and the matching deals immediately offered by the other domestic manufacturers. As a result, September sales for cars hit a new monthly record of 924,919 units and the 1986 model year, which runs from October to October, has produced bumper figures for sales and production by each of the big three US car makers.

Unfortunately, the record sales figures for the model year have not been reflected in the car makers' financial results—or rather the rising sales have cast a mirror image of declining profits, as the costs of sales incentives has overwhelmed the benefits from rising productivity and the declining dollar.

The further, potentially costly, impact of the September credit war on sales for the 1987 model year, which began in mid-October, is still a matter of guesswork. Some analysts have expressed hopes that sales will be buoyed up between October and December by the tax reform bill.

From January 1, 1987 this will eliminate the federal tax deduction for local sales taxes, creating a significant incentive for consumers in high-tax areas states such as New York to buy their cars in 1986. To the extent this factor has an influence, however, it will only deepen any slump in sales next year—and raise expectations of further financial give-aways next summer to shift the remaining 1987 models.

The full costs of this year's financial incentives will not become apparent until the motor manufacturers' fourth quarter results are published next year, but they are expected to be substantial.

For the US auto industry as a whole, net profits are likely to be slightly down this year at $7.8bn against $8.1bn in 1985, according to the Value Line investment survey. Within this aggregate, net profits at GM are expected to be down by nearly 25 per cent from last year's $4.0bn.

Chrysler may suffer a similar percentage decline in profits, but this will be from a record level of $1.6bn reached last year.

Ford's profits, meanwhile, could rise by 20 per cent or more from last year's $2.5bn as the company benefits more than its competitors from strong overseas sales, booming demand for small trucks and a good balance between sales and production. A further vital factor underpinning Ford's performance has been the huge success of its mid-range Taurus and Sable models.

These cars, which bear similarities to Ford's European Sierra and represents a conscious move away from traditional American car "boxy" styling, have turned out to be Ford's most successful models since the Mustangs of the mid-1960s.

It is probably significant that Chrysler, too, has found its most successful models to be the medium-sized K cars, Dodge Caravan minivans and Horizon/Omni subcompacts.

Unfortunately for GM, whose unique strength has always been in the traditional large car market, luxury cars may be profitable to manufacture, but they are proving hard to sell against competitors from Europe which have a higher reputation for technical spobistication and a much more glamorous image.

There are, nonetheless, some hopeful features on the US motor industry's horizon—above all the fall in the value of the dollar.

The Japanese are raising prices as a result of the dollar's decline and starting to meet consumer resistance. Although Japanese exports are unlikely to drop below the "voluntary" ceiling of 2.4m units imposed by Tokyo's Ministry of International Trade and Industry (MITI), higher prices for Japanese models are giving US manufacturers more room for manouevre on their own pricing.

Admittedly, a new source of competition apparently insensitive to currency movements has emerged in the last year with the phenomenal success of the South Korean Hyundai Excel. Excel sales are expected to total over 150,000 this year, which, from a standing start, must qualify as one of the most successful launches in motor marketing history.

As long as Korea manages to avoid revaluing the won against the dollar, Hyundai will maintain an enormous cost advantage over any other manufacturer—and even after a currency realignment the Koreans are likely to make increasing inroads into the cheap end of the market.

Another type of competition from which the cheaper dollar offers no succour are the expanding Japanese manufacturing facilities within the US. Honda, with an expected US output of about 200,000 units this year, has overtaken American Motors and Volkswagen to become the fourth-largest US domestic carmaker.

Toyota, Mazda, Nissan and Mitsubishi all have large joint ventures and "immigrant" production facilities in the US coming on stream in the next few years. Thus, by 1989 "immigrant" production, controlled by foreign companies but based in the US, will account for 1.6m units or nearly 18 per cent of the US installed capacity, according to Salomon Brothers.

For the big three US car makers, this growing production virtually guarantees a saturated domestic market, with pressure for lower prices and capacity reductions as far ahead as the eye can see.

Anatole Kaletsky

US car production

	1979	1980	1981	1982	1983	1984	1985	1986*
General Motors	5,092,614	4,064,546	3,904,083	3,173,145	3,975,291	4,344,727	4,887,079	2,940,551
Ford	2,043,014	1,306,950	1,320,198	1,104,075	1,547,680	1,775,236	1,636,144	1,195,327
Chrysler	928,618	638,974	749,648	600,502	903,553	1,247,826	1,266,067	887,578
American Motors	184,636	164,728	109,319	109,746	261,993	192,196	111,138	36,955
VWA	173,192	197,106	167,755	84,246	98,287	74,785	96,459	54,159
Honda				1,500	55,337	138,572	145,337	138,735
Nissan							43,810	23,943
Industry total	8,422,074	6,372,304	6,251,003	5,075,214	6,782,061	7,773,342	8,186,034	5,277,248

* First eight months

Research: Rivka Nachoma

UK car production	Jan-June 1985	Jan-June 1986
Total	575,705	519,890
of which		
Austin Rover	257,156	210,571
Range Rover	7,038	7,265
Total Rover Grp	264,194	217,836
Ford	168,742	158,453
Gen Mtrs-Vauxhall	81,799	84,094
Peugeot-Talbot	37,076	33,684
Jaguar/Daimler	20,134	21,910
Rolls-Royce	1,311	1,346

Source: SMMT

Ford's Granada/Scorpio. Though Ford's overall output has fallen, mainly because of an industrial dispute, productivity is now up sharply, the company says.

The UK

Year of exceptional upheaval

THE PAST YEAR has been one of exceptional upheaval in the UK motor industry. And the turmoil is far from over.

The future course to be charted by State-owned Austin Rover will not become clear for some time. This is in the wake of a traumatic few months in which it has seen its UK market share tumble to below 16 per cent from 18-plus, acquired a tough new chairman, seen virtually all the old top management pack their bags, and a return to significant losses—of £60.9m pre-tax—in the first half of this year.

The name of BL, of which Austin Rover formed a part, has been dropped by new chairman and former British Shipbuilders chief Mr Graham Day, a Canadian who was the personal choice of British Prime Minister Mrs Margaret Thatcher for the job.

The name Rover Group now hangs over a revised corporate structure within which Mr Day has assumed executive chairmanship of Austin Rover, with former Leyland Trucks head Mr Les Wharton moving to the managing directorship.

As a consequence out went Mr Harold Musgrove, the 56-year-old former chairman and chief executive, bringing to an end an Austin Rover career which had begun 40 years previously with an apprenticeship. Mr Musgrove followed former BL Cars chief executive Mr Ray Horrocks out of the company, and was accompanied by several other top management figures.

Mr Day has declared that he intends to put "some commercial punch" into Austin Rover, including the rebuilding of the product development plan "from the ground up."

He has also made clear that there will be a major drive both to further improve quality, and to increase public awareness that it is taking place. He is to present his own corporate plan to the Government before the end of this year, which may or may not include a submission for more government money.

The future involvement of Honda, Austin Rover's partner in developing the Rover 800/Honda Legend executive cars (which each is building for the other) is also undetermined. But it cannot be ruled out that Honda will take a small equity stake.

Any request from Mr Day for more cash would be embarrassing for the government for, ironically, the changes at Austin Rover virtually coincided with the coming on stream of car assembly at Nissan's greenfield plant at Washington, Tyne and Wear.

Initial output is 24,000 cars a year, which come off the Japanese import quota. But Nissan confirmed at the opening ceremony that it would proceed to stage two, involving manufacture of cars with up to 80 per cent European content, at a rate of at least 100,000 cars a year by 1991—two years early.

That qualifies Nissan for a total of £100m in government aid.

Ford of Britain has itself seen major management changes this year. Long-time chairman and managing director Mr Sam Toy retired to become president of the Society of Motor Manufacturers and Traders, with his job now split between Mr Derek Barron, brought in as chairman from Latin America, and Mr Roger Humm (formerly marketing director) as managing director.

Mr Barron was quick to comment on Nissan's presence. Ford, he declared, was ready and able to compete with any rival. But there should be a stiffening of EEC definitions of what constituted a European car. A standard should be set of at least 80 per cent European content as measured by ex-factory gate costs rather than, as now, 60 per cent measured by ex-factory price.

The latter allows all overheads, such as advertising, to be included in the percentage, and even the company's profit margin.

The entry ticket for the Japanese, Mr Barron insisted, should be no different than for any other manufacturer. "You don't give the keys of the kingdom to anyone who's not prepared to put down roots."

Meanwhile, UK car production continued to decline, despite a record for car sales last year of 1.83m units.

As the table shows, Austin Rover was by far the most badly hit in the first half of this year, with output falling by 18 per cent.

Ford's output also fell, however, by over 6 per cent—but this is largely explained by an industrial dispute at the Halewood Escort plant early in the year, and which cost over 10,000 cars.

Indeed, Mr Barron says the outlook for Ford car output in the UK is brighter than for a long time, with productivity up sharply. Halewood's 10,000 employees, he says, are now hitting daily output capacity of 1,015 cars, compared with 800 last October, while the Dagenham plant producing Fiestas and Sierras had gone in the same period from 780 a day to just under "the magic 1,000." An extra 415 people have been taken on to build Sierras.

Vauxhall saw its output rise by 2.8 per cent to its best level, following production last year which was its best for 13 years.

However, the figures were dragged down also by Peugeot/Talbot's contract to supply Peykan car kits to Iran, only 7,800 of which have been dispatched this year. This compares with peak volumes in the past of around 70,000 units per year.

Despite this, Peugeot/Talbot's relatively small decrease, of 8.6 per cent, reflects the successful launch of the 309 model being built at Ryton, at the single-shift capacity level of 1,250 cars a week.

A substantial boost came earlier this summer when Peugeot/Talbot began building left-hand-drive models for export, for the first time since the 1970s. Productivity and quality at the plant has improved to the extent that it is almost certain to build also a new middle-range car, code-named D60, from about autumn 1987.

This is despite the fact that Peugeot/Talbot lost £8.3m pre-tax in the first half—a further reflection of the Iranian difficulties.

The UK's balance of trade in vehicles and related products continues to worsen. This is despite also a 30 per cent increase in car exports by Austin Rover, to 62,000 from 46,000 in the first half of this year, and rising exports by Ford of engines and other components. (Another lean-burn engine range, in which Ford is investing £157m, is due to come into production next year).

In sales terms, Ford continues to dominate the market. It had a 28.83 per cent share in the first eight months of this year compared with 16.37 per cent for Austin Rover and 15.57 per cent for Vauxhall. Imports meanwhile continue to hover just below the 60 per cent level.

Meanwhile, total sales are expected to set a record year for the second year in a row, with Ford's Mr Barron predicting a total of about 1.85m units.

The major success story of the UK industry remains Jaguar. Its new XJ40 model made its debut in the last days of the Paris Show, and will have a place of honour at Birmingham. To be sold as the XJ6, it seems certain to propel Jaguar rapidly towards its target of producing 60,000 cars a year by the end of the decade.

John Griffiths

UK motor trade

(£m)

	2nd quarter 1986	2nd quarter 1985	1st half 1986	1st half 1985
Export (fob)				
Cars	351	327	637	661
Commercials	86	103	182	205
Other	953	851	1,811	1,709
Imports (cif)				
Cars	1,321	1,249	2,528	2,348
Commercials	210	191	435	379
Other	878	764	1,665	1,492
Trade balance				
Cars	− 970	− 922	−1,891	−1,687
Commercials	− 124	− 89	− 253	− 174
Other	75	87	146	217
Total	−1,019	− 924	−1,998	−1,644

Source: SMMT from Customs and Excise data.

Labour relations

Struggle by other means

TRADE UNIONS that try to "freeze time" or to resist the radical transformation in industrial relations now taking place within the motor industry are unlikely to survive, Mr Herman Rebhan, general secretary of the International Metalworkers' Federation (IMF), believes.

But, he adds quickly, it would be a big mistake to conclude that under the impact of the new technologies the lion is lying down with the lamb. Closer cooperation between unions and employers is "struggle by other means." And he looks forward to the arrival of "more worker-friendly governments" in Europe in the next few years.

The Geneva-based IMF coordinates the activities of unions representing some 3m automobile workers in the non-communist world. Mr Rebhan, its general secretary for the past 12 years, and before that an official of the United Autoworkers' Union of the US and a General Motors' worker for 15 years, speaks with experience that commands respect.

From his vantage point of Geneva, he believes it is not yet possible to discern any clearcut worldwide pattern of worker-employer relations emerging from the turmoil the industry has gone through in the past 10 years.

Union concern in mature car industries has been focused to a greater extent than before on the survival of national enterprises: job security has become the number one priority. In the US and Europe almost all effective unions are today striking quid pro quo deals with employers, exchanging job guarantees for a free hand in installing new technology.

The cost-cutting undertaken by companies to remain competitive has resulted in the loss of many jobs but not in wage-cutting, the IMF claims.

The profit-sharing introduced by the US producers has made no dent in the conventional hourly-pay system, while in most of Europe the absence of collective bargaining covering only autoworkers has doomed attempts to bring in profit-sharing. In Britain the absence of profit has been an effective deterrent.

Most unions remain wary of co-managing or co-determination. But unusually for an American-bred labour official Mr Rebhan in this instance bucks the trend. He is vice-chairman, nominated by IG Metall, on the supervisory board of Ford, West Germany, and believes co-determination works.

A more traditional adversarial relationship prevails in countries such as South Korea and Brazil, important newcomers to the world industry whose unions are repressed or still weak. Employers will not escape trouble, if they persist in ignoring demands for adequate minimum wages and working conditions in these areas, Mr Rebhan says.

Recently the IMF publicly supported a small strike at the Daewoo plant in South Korea and it has given publicity to the union leaders who were imprisoned as a result of the strike.

However, the great variance in labour bargaining practices in different countries — and the resistance of managements — are making it difficult for the IMF and the major national unions to realise hopes of conducting worldwide negotiations with multinational car companies.

Mr Rebhan, understandably, is not happy with the suggestion that a decline in the power of the trade unions lies at the origin of the new spirit of cooperation within the US and European motor industries. The unions, he concedes, are showing greater flexibility.

They have, for instance, accepted the elimination of the old job classification systems in the US and Britain. The agreement covering workers at the GM-Toyota joint venture in California allows for only three classifications against more than 100 before.

Japanese carmakers have exerted a major influence on industrial relations in the motor industry over the past 10 years, Mr Rebhan says.

In the first instance their production techniques have compelled competitors to introduce methods and quality control systems which have radically changed workers' roles.

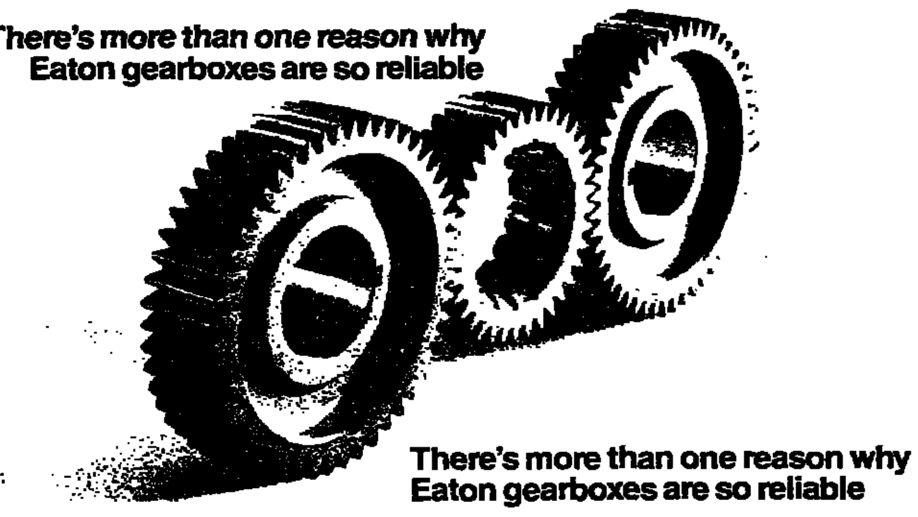
Second, in the "sweetheart agreements" they strike with local unions for their foreign production plants the Japanese offer lifetime job guarantees, reasonable wages and benefits to core workers but in practice keep the national union out of the factory.

Conversation with Rebhan and his staff at the IMF comes round regularly to two future car plants, the General Motors' Saturn project in Tennessee and the Nissan project in North-East England. Their preoccupation with the significance of these new projects and their uncertainty about their effects on union-management relations are evident.

The agreement for the Saturn plant signed last July between the UAW labour union and General Motors represents the first example of "outright imitation" of Japanese industrial relations, Mr Collin Gonze, director of the IMF's automobile department, says.

It purports to offer a veto power to workers over all decision-making functions from the simple work group to the administration of the entire $5bn project. Doubt in the IMF centres on whether such worker control will materialise or be imitated elsewhere.

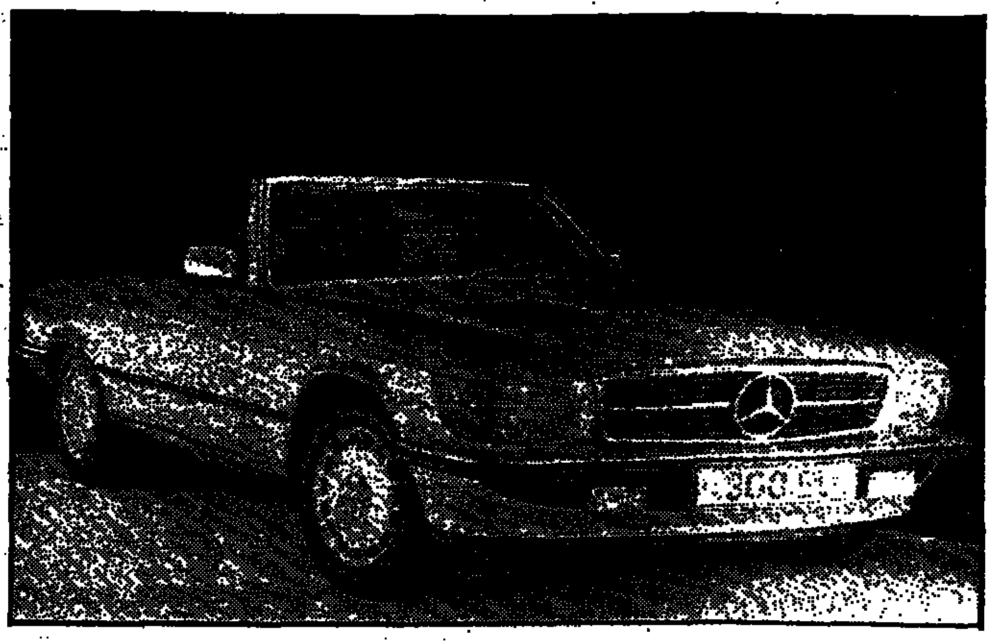
William Dullforce



Passenger car registrations—western Europe
(15 markets)

	Year 1985	% Share	Year 1984	% Share	% Change
VW-Audi	1,360,367	12.92	1,220,279	12.11	11.5
Fiat-Lancia	1,294,441	12.30	1,285,443	12.76	0.7
Ford	1,257,218	11.94	1,294,700	12.85	-2.9
Peugeot-Citroen	1,225,422	11.64	1,165,603	11.57	5.1
GM/Opel/Vauxhall	1,190,462	11.31	1,108,698	11.00	7.4
Renault	1,129,120	10.73	1,100,491	10.92	2.6
Rover Group	419,465	3.98	394,253	3.91	6.4
Daimler-Benz	395,203	3.75	331,640	3.29	19.2
Nissan	297,931	2.83	280,099	2.78	6.4
BMW	287,932	2.74	301,465	2.99	-4.5
Toyota	270,837	2.57	224,528	2.23	20.6
Volvo	254,261	2.42	238,112	2.36	6.8
Mazda	202,423	1.92	197,865	1.96	2.3
Alfa Romeo	158,405	1.50	180,263	1.79	-12.1
Seat	144,810	1.38	145,825	1.45	-0.7
Mitsubishi	114,087	1.08	109,079	1.08	4.6
Honda	113,883	1.08	111,102	1.10	2.5
Lada	88,742	0.84	89,595	0.89	-1.0
Saab	58,789	0.56	62,701	0.62	-6.2
Suzuki	48,555	0.46	42,436	0.42	14.4
Others	214,831	2.04	193,739	1.92	10.9
Total	10,527,124	100.0	10,077,916	100.00	4.5
Total Japanese	1,121,966	10.66	1,023,061	10.15	9.7

Source: Automotive Industry Data



The Mercedes-Benz 300SL, modified to improve handling and ride.

France

Recovery brings out the smiles

THERE WAS a distinctively upbeat mood among the French car manufacturers at the Paris Motor Show this month. Even on the Renault stand there were smiles and laughter despite the fact that the large state car group is still heavily in the red.

The confidence which appears to be returning to the French car industry reflects the strong recovery that the country's private Peugeot group has made and the first tentative signs of recovery at Renault. Moreover, the French car market is also beginning to pick up from its protracted slump during the past two years.

New car registrations are expected to total about 1.9m vehicles this year or 150,000 more cars than last year. The level of new registrations is thus returning closer to the 2m mark which the French car manufacturers believe is the appropriate figure for a market the size of France.

While foreign importers have continued to increase their penetration of the domestic market with more than 35 per cent of the French market so far this year, the French car makers, especially Peugeot, have continued to perform strongly on export markets.

In Europe, for example, the Peugeot group has seen its sales increase by 17 per cent so far this year, outperforming the European market which has grown by about half that much.

Indeed, the Peugeot group, which embraces the Peugeot, Talbot and Ciroen marques, now feels it has come completely out of the woods.

"The recovery stage is over. We are now in the development stage and we expect to flourish," says Mr Jacques Calvet, chairman of the Peugeot group and the main architect of its financial recovery during the past few years.

Peugeot, which has just launched the new AX Citroen mini and is working on a new medium-range saloon for the Peugeot marque which could also be produced in the UK, is expected to see its profits rise to more than FFr 2bn this year from FFr 543m last year. This confirms the recovery of a group which had lost FFr 8.5bn in the previous five years.

Mr Calvet intends to continue working to improve productivity and strengthen the group's finances by reducing its debt service burden. The private company's debts have now been stabilised at FFr 32bn-FFr 33bn and Peugeot's target is to reduce debt service charges from 4.2 per cent of sales to 3.6 per cent.

At the same time the group is increasing its investments which will total FFr 8.2bn this year or more than double the amount three years ago.

If Peugeot is now well on the way to recovery—"We are ready to take off again," says an executive of the private car group—Renault is also beginning to recover. The first results of the intensive recovery treatment of Mr Georges Besse, its chairman for the past 18 months, are beginning to show.

After losing a record FFr 12.55bn in 1984 and another massive FFr 10.9bn last year, Renault's losses are expected to fall to around FFr 5bn this year—a still gigantic level but nonetheless a strong improvement on the previous years. Moreover, Mr Besse also believes that Renault will be in the black again by the last quarter of next year.

As in the case of Peugeot, Renault has acted in a draconian fashion to reduce its workforce and improve productivity—albeit two years after its French rival. In the past 2½ years, Renault's French car workforce has been cut by 25 per cent.

Productivity which stood at 10.8 cars per worker a year in 1985, has increased to about 13.6 cars in 1986 and Mr Besse's ambitious target is to see it rise to 15 next year.

The priority at Renault has been to refocus the group around its core car manufacturing operations. Mr Besse has sought to cut costs wherever possible and raise fresh cash from the sale of assets. However, he has so far not received the sort of financial support from the group's state shareholder which Renault needs to restructure its balance sheet.

With its new range of cars and the measures taken to improve productivity and cut costs, the company is now operating more solidly. But its catastrophic level of debts totalling FFr 60bn or the equivalent of half the group's turnover remains Renault's big problem.

So far, the government has given no hint that it plans to enable Renault to restructure its balance sheet quickly with a sudden injection of the FFr 15bn-FFr 20bn the company needs. Instead, the government has shown every sign of continuing the current level of support to the car group of about FFr 3bn in year in state capital grants.

However, the government could eventually be prompted to make a more substantial contribution to Renault if the group's recovery confirms itself. But any crucial decision on financing is unlikely to occur before the French Presidential elections due in 1988.

Despite the recovery of the domestic industry, the motor manufacturers are continuing to seek support from the government which they feel continues to penalise the industry. While price controls on new cars have finally disappearead in France, the car manufacturers would like to see a cut in the current high level of value added tax of 33 per cent on passenger cars in France.

Both Renault and Peugeot are also worried by Japanese competition. The two car groups fear that Japan will increasingly turn its attention on the European market, especially if the Japanese Yen remains so strong against the US dollar.

Indeed, the two French car makers have come out openly in support of the proposals recently made by Ford for tougher criteria to be applied in defining whether a Japanese car assembled in the EEC was European. Ford suggests that a new minimum European content of 80 per cent measured by ex-factory cost should be applied.

Paul Betts

W. Germany

Settling down to a more leisurely pace of growth

AFTER ITS fast-track performance of last year, West Germany's car industry is settling down to a more leisurely pace of growth.

Output is expected to edge ahead to a further new record in 1986, according to latest industry forecasts. And companies have been spending heavily on new models, plants, and research.

Since there are few potentially new car buyers to woo into dealers' showrooms—most Germans who can afford a car have one already—the car manufacturers are not looking for any significant breakthrough on the domestic scene.

With a gradually declining population, the chances of greater market penetration are becoming slimmer for the car groups. But competition has hotted up between the rival model makers, and imported cars have been accelerating into the market.

Last year, German production in the industry rose by 10 per cent to 4.17m cars, thus exceeding 4m and beating the previous record of 1979 for the first time. However, registrations slipped by 0.6 per cent to 2.38m cars.

Exports soared by 15 per cent to 2.57m cars, the biggest markets being Britain, the US, France and Italy. The export share of total production approached 62 per cent. Unit sales to the US, where the German market share was 4.5 per cent, jumped by some 20 per cent. In Britain, where the share was almost 24 per cent, the rise was just over 8 per cent.

The outlook for 1986, according to Mr Hans-Erdmann Schoenbeck, president of the German automobile industry association (VDA), is for a slight rise in production to 4.3m cars, with exports no longer providing the main impetus behind sales.

Because of the strength of the D-Mark against the dollar and other currencies, German carmakers are finding that the way into their biggest foreign markets has developed an upward slope.

Thus they are looking to the home market for increases in sales, but as the market has become virtually saturated, it is replacement cars that provide most of the demand, with an increasing shift up the quality scale to more expensive and better-equipped models.

Certainly, the German car groups with their emphasis on excellence of engineering, speed, and comfort are well placed to provide this. As for the customers, the country's steady export growth lack of inflation and thus low financing costs have put more money at people's disposal. Lower oil prices have also helped the economy and the car business.

"The budget set aside for car purchases," says Bayerische Hypotheken und Wechsel Bank in a recent study of the sector, "is likely to increase considerably this year." But it adds: "This will not be reflected so much in increased purchases of new cars as in far greater willingness of customers to buy more expensive models."

The Munich-based bank expects new car registrations to rise by at least 8 per cent this year, which would take them to about 2.6m. The record year was 1978, with 2.7m cars.

After a slow sart, due to uncertainty about pollution control measures, demand picked up sharply towards the end of 1985 and the impetus carried through into this year.

The VDA figures for the first eight months of 1986 show a 3 per cent rise in production to 2.81m cars, but a dip of 2 per cent in exports to 1.67m.

Considering the rampant strength of D-Mark against other currencies such as the dollar, the fall in exports has been fairly small. But companies admit that they are starting to feel the pinch in outside markets.

Porsche, the Stuttgart-based luxury sports car maker, warned that trading conditions had become worse as a result of the fall in the value of the dollar. It said this when announcing a jump in turnover of 12 per cent for its financial year to end-July to DM 3.6bn.

It took some comfort from the fact that other companies faced the same problem. The US takes around half of Porsche's total unit sales of just over 50,000 cars a year, so the slide in the dollar is a matter of acute concern.

Porsche said profits were "satisfactory." In 1984-85, earnings rose by 30 per cent and the past year's results are likely to be flat, with analysts expecting a tougher time in the current year.

Within Germany, imports have taken a 30 per cent share compared with 27 per cent at the end of 1985. While the VDA expects this level of penetration to tail off in comming months, Japanese and other foreign manufacturers provide a stiff challenge.

To meet it, and to ward off each other's competitive efforts, car companies have been investing heavily. BMW spent more than DM 2bn on developing and bringing into production its new 7-series, similar in appearance but more advanced technically than preceding models.

BMW has also built a new plant in Bavaria, while rival Daimler-Benz of Stuttgart plans to invest DM 1.8bn in another factory in Baden-Wurttemberg. BMW hopes to lift sales from 441,000 to 450,000 and the extra plant will raise capacity to some 550,000 cars.

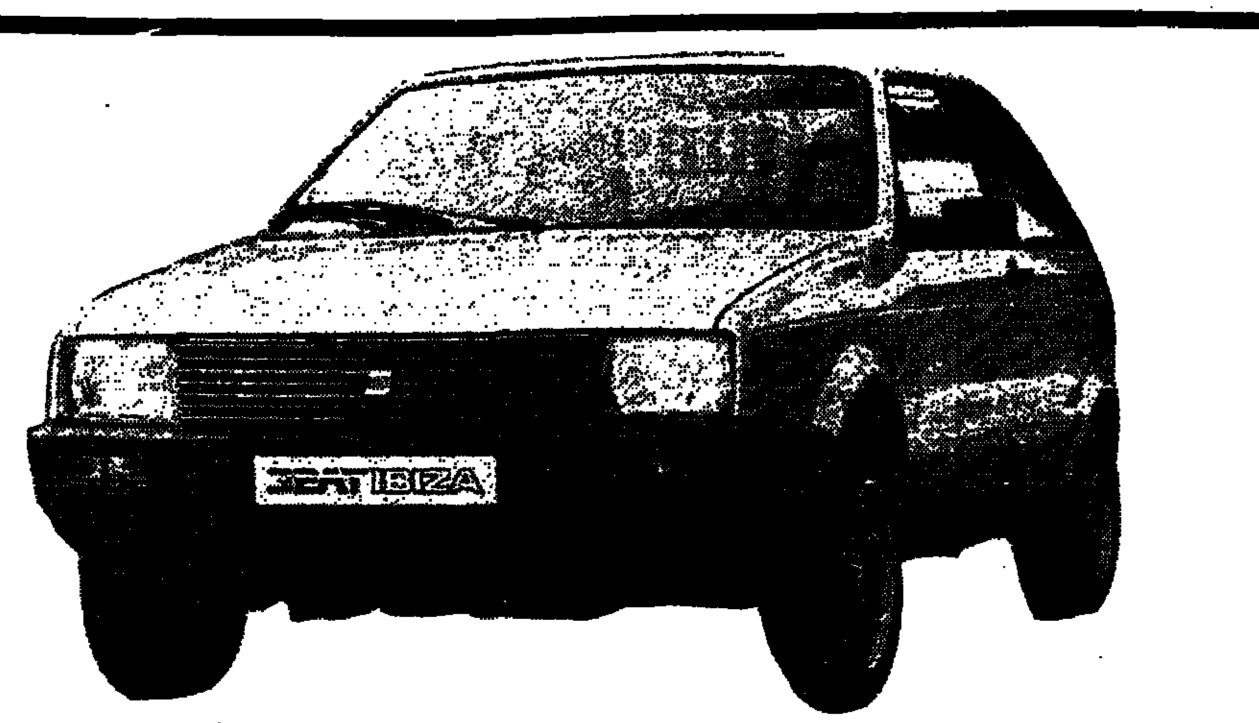
Despite a near 10 per cent increase in sales, BMW's net income slipped 9 per cent to DM 300m last year. This year, it expects an improvement. Daimler-Benz, now also heavily engaged in electronics, engines and aerospace, raised output last year by 13 per cent to 541,0000 and is aiming for over 590,000 in 1986.

At the mass end of the market, Volkswagen expects to turn out more than 2.8m vehicles this year against 2.65m last year, which includes VW, Audi and Seat of Spain, now a subsidiary. Spending, not taking in Seat, jumped by 60 per cent in the first half to DM 2.3bn.

Opel, struggling to return to profit next year, is this year spending DM 1.2bn on new models and facilities; its Omega replaces the long-established Rekord. The General Motors subsidiary aims to build over 1m cars this year, while Ford, part of the US group, aims to move back into profit in 1986, with sales up 5.5 per cent in the first five months to 364,000 cars.

In the increasingly tough competitive environment of the 1980s, Germany's traditional engineering strength is a significant asset. But customers' growing sophistication extends also to style and looks. And rival manufacturers elsewhere are no slouches when it comes to producing attractive and keenly priced models.

Andrew Fisher



Seat, Spain's biggest car company which was bought by Volkswagen in June this year from the Spanish Government exports more than 60 per cent of its production of small cars including its new Ibiza model (above).

Spain

A key to VW's strategy

VOLKSWAGEN'S TAKEOVER in June of the formerly state-owned Seat car company rounded off a series of negotiations on what amounts to a fairly drastic reshaping of Spain's car industry.

Set in motion last year and concluded with a rapidity almost unprecedented in Spanish industry, the negotiations were to ensure the continued commitment of multi-national groups to Spain and consolidate production and export levels after the country's EEC entry.

EEC membership, which entails the progressive dismantling of Spain's barriers against imports from the rest of the Community, has forced the country's motor manufacturers to re-think their operations in the context of global European strategies.

Combined investment programmes to streamline production and adapt model strategies amount to some $5bn, including more than $3bn at Seat. Separate plans backed by state assistance, have been negotiated by the government with the three French-owned manufacturers—Renault, Peugeot-Talbot and Citroen, which are all due to reduce the range of models they produce in Spain—and with Ford.

The VW agreement, which follows the arrival in recent years of Ford and General Motors, confirms Spain's aspirations as a European manufacturing centre for small cars.

The Spanish car industry is henceforth made up of six foreign-controlled companies, battling in a market which has shrunk from about 650,000 vehicles in 1977 to about 550,000 at present and facing growing competition from imports.

In the first half-year of EEC membership, imports have already increased their share to almost 15 per cent compared with under 11 per cent a year earlier. With simplified import procedures and the first tariff cuts—plus annual quotas allowing 32,000 cars to be sold in Spain at special reduced tariffs—registrations of foreign cars between January and June rose by 52 per cent to 42,000.

Spain remains one of the European markets most closed to Japanese car imports, but EEC companies like Fiat and Alfa Romeo have been building up sales. Eventually, imports are expected to take at least 25 per cent of the market.

Meanwhile, exports, which have recently come to account for about 60 per cent of Spanish production, have suffered a brake on growth. After sagging in the early months of the year, they showed a modest 1.6 per cent increase in terms of units in the first half.

All eyes are therefore on the future of the home market, where the trend is far from clear. Home sales by Spanish producers were distorted by the introduction of 33 per cent VAT in January, replacing previous taxes. This brought a rush of purchases late last year and a drop at the beginning of this year.

However, the market made up for this bad start in the second quarter. Sales for the half-year were 4.4 per cent up and production, partly reflecting the formation of new model stocks, 5.4 per cent up at 637,000 units.

The performance of the different companies has been uneven. GM and Ford, which were Spain's top manufacturing exporters last year, were the only ones to show significant production increases.

GM, while remaining three-quarters geared to exports, had a 50 per cent growth in Spanish sales thanks to the new Kadett, which it is making for the Spanish market, its second Spanish-made model after the Opel Corsa/Vauxhall Nova. Ford, the most profitable of Spain's manufacturers, had its growth concentrated in exports.

Renault and Peugeot-Talbot, both predominantly dependent on the local market, moved more towards exports. Renault exported some 30 per cent of production and Peugeot, which is waiting to introduce the 309 saloon on the Spanish market, about 40 per cent. Peugeot's sister company, Citroen, lost both domestic sales and exports.

Seat, the biggest producer, which has recently been selling more than 60 per cent of its production abroad, including most of its new Ibiza small cars, lost ground in exports but gained on the home market.

A third of the company's output is already in VW models—the Polo, which it also exports, Passat and Santana—introduced under its previous co-operation agreement with the West German manufacturer. The aim is broadly to maintain this balance, with Seat continuing to produce its own models as a third facet to the VW-Audi group.

Even though the Bill for sorting out Seat's financial mess has been sent to the Spanish taxpayer, the takeover is a sizeable plunge for VW—Pta 80bn ($600m) for the three-stage purchase, a further Pta 57bn in planned capital increases, a Pta 430bn investment programme including a new factory near Barcelona, and no hopes of profit for a few years to come.

VW wants to double its 6 per cent share of the European small car market (its overall European market share is around 13 per cent) by the 1990s, and Spain is part of its strategy.

David White

Canada

Influx brings turmoil

CANADA'S AUTO industry is in turmoil, and the long-established North American manufacturers are having to cope with a wave of branch assembly operations being built by Asian companies in Ontario and Quebec.

One clear implication emerges: by 1990, Canada could well have surplus production capacity of about 500,000 cars yearly that cannot be shipped into the US market because of similar over-capacity there.

Something is going to have to give, because the domestic market has caught up the ground lost in the 1982-83 recession and is entering a slower growth phase. In the September 30 model year just ended, 1,128,000 cars and 414,800 trucks (including minivans) were sold, both domestically-produced and imported from the US, Europe and Asia.

In the model year 1987 just beginning, the industry expects to sell just over 1m cars and about 395,000 trucks. The Japanese and Hyundai of Korea will be taking about 25 per cent of the car market. All imports were about 359,000 for 1986 and may reach 391,000 in 1987.

Even with the 40 per cent rise in the yen, the Japanese manufacturers still have an advantage of about $1,500 per car in cost, say the North American companies, and while most are committed to new assembly plants in Canada, with the conspicious exception of Nissan, domestic content will remain low for many years.

Last month, a team of Koreans from Hyundai kicked off construction of a 100,000-unit assembly plant near Montreal. The capital cost will be about C$325m, plus working capital and interest, which will bring the total to more than $450m. The Federal and Quebec Governments jointly are putting up $110m to cover interest charges, and the land was virtually given to Hyundai.

By 1991 Hyundai hopes to be operating at the full 100,000 unit rate turning out a new front-wheel-drive model for the Canadian market with a modest Canadian content. It may be possible to sell some cars to the US, and in the longer term the company says it is thinking of a stamping plant.

Several weeks earlier, General Motors Corp. and Suzuki of Japan announced a $500m joint-venture assembly plant in Ontario, with the production of small cars and Jeep-type vehicles selling in Canada and the US and sufficient Canadian content to qualify under the Canada-US auto pact. Essentially this means a company can import parts or vehicles duty-free to the same value as its Canadian production.

On a North American basis, by 1990 it is estimated that assembly capacity will be 15m units a year, compared with demand of around 12m.

Honda, Toyota and American Motors (Canada) are building or nearly completing new plants in Ontario, as Hyundai begins construction near Montreal. Nissan may choose a parts plant, and has been rumoured looking for an assembly plant site.

In the US Honda, Toyota, Nissan and Mazda have new plants and Mitsubishi plans another. Deals are being worked out by Daihatsu, Subaru, Isuzu and others for North American assembly. Volkswagen has retained one plant in Pennsylvania, which also supplies Canada.

General Motors Canada, Ford of Canada and Chrysler Canada, traditionally the market leaders, have all warned that several assembly plants and parts plants will have to close by 1990 because of the build-up of Asian capacity and the prospect of continuing heavy imports. They argue that except for AMC (Canada), controlled by Renault of France, none of the foreign companies are fully committed to raising Canadian content.

They are willing to look the other way when the $120m federal-provincial grant to AMC (Canada) for its new plant at Brampton is mentioned. But they blame the federal and provincial governments roundly for the millions in subsidies going to the other Asian companies for their Canadian plants.

However, governments reply that the North American companies were slow to produce fuel-efficient vehicles in the 1970s and early 1980s, and even now cannot produce small cars as efficiently as Asia.

Only by 1990 will the Big Three have a full range of front-wheel-drive fuel-efficient vehicles available and even then some subcompacts may be imported from captive Asian sources.

Chrysler Canada president M. J. Closs puts the North American companies' fears clearly: If the new Asian plants have to dispose of surplus production in Canada because the US cannot take any more, the Asian producers will be able to set prices and control market share and distribution in Canada.

Robert Gibbens

Alfa Romeo has been helped to hold on to its market share by the warm reception given to its new mid-sized Alfa 75 (above). Fiat's Croma Turbo (below) is the fruit of collaboration with Saab of Sweden.

Italy

Fiat prospers in buoyant market

THE SLEEK young men who sell new cars in Italy's thousands of showrooms are looking even sleeker this year. Trade that is brisker than ever is clearly yielding satisfactory bonuses for investing in new suits, expensive aftersh~ve, and, perhaps, the booming Milan stock market where Fiat stock is a star performer.

Italy's premier producer, indeed, the country's premier company, is having a very good year. Its six-months profits were double those of a year ago, its debt has been impressively cut back and the politically and commercially embarrassing Libyan shareholding removed. Little wonder that the business world at home and abroad is toasting the *avvocato* Gianni Agnelli who, at 65, is an inspiration to all late developers.

Little wonder also that a supremely confident Agnelli is looking to maintain his hegemony over an Italian car market which is almost a Fiat private domain. Italy's long standing ability to peg Japanese imports down to fewer than 3,000 a year is a crucial underpinning to Fiat's market strength, but none of the company's European rivals would underestimate for a moment its ability to produce the right cars, in the right volumes, at the right price.

In the first eight months of this year Fiat and its Lancia/Autobianci subsidiary sold 692,620 passenger cars into the Italian market to carve out a share of 54.2 per cent. If the performance holds, the group will pocket a satisfying increase over 1985's full year-share of 53.2 per cent.

The satisfaction is no doubt all the greater because of the Italian consumer's obvious reserves of disposable income to indulge his undoubted fondness for a new car. At the start of the year, producers and analysts alike were doubtful whether 1985's record sales of 1.748m could be overtaken this year. But the fall in oil prices and the distinct prospect of a close to 3 per cent economic growth rate brought with them buoyant forecasts of a market for about 1.8m vehicles.

The total for the first eight months of 788,420 is pretty much on course to achieve this new record, and analysts now believe that if the end result falls short, it will only do so by 5,000 cars or so.

Fortunately, given the over-capacity in the European motor industry as a whole, the growth trend also figures in Italy's exports.

Indeed, an eight months home sales increase of 3.2 per cent is humbled by the 16.2 per cent leap in West German sales and relatively modest in comparison with the 4.9 per cent increase in deliveries to French customers. It is, however, ahead of the 2.5 per cent rise in Britain's new car market.

There are of course other car producers in Italy, apart from Fiat. But they are all minnows, and only Alfa Romeo can be considered akin to a volume manufacturer. The company, state-owned, is a troubled one maimed over several years by appallingly damaging political interference, a workforce of mixed competence, a similar management and inadequate investment.

Loss has piled upon loss at Alfa Romeo and there was considerable relief at IRI, the stateholding company, when Ford came riding out of the dawn with proposals that would lead to its eventual control of Alfa.

This time last year, of course, Ford was holding exceedingly confidential discussions aiming at some kind of link-up with Fiat. These were eventually aborted, allegedly because both companies wanted control of whatever venture they jointly created. But the gentlemen of Dearborn obviously see promise and opportunity in Italy, although the much-anticipated takeover of Alfa has yet to materialise.

In the meantime, Alfa is bravely holding on to its market share, helped by the warm reception given to its mid-sized Alfa 75. This has climbed into tenth spot in the top-selling ten cars for the first eight months of the year. Overall, Alfa is holding 6.4 per cent of the market this year and will need to try a little harder if it is to match the 6.5 per cent taken in 1985.

With "made in Italy" vehicles sitting comfortably on a 61.7 per cent share of the domestic market, the going is obviously tough for the dozens of foreign producers which sell generally miniscule quantities in Italy. Ford's interest in directly investing in Italy may not be totally unrelated to its embarrassing 3.8 per cent hold on the Italian market, impressive only in comparison with Opel/General Motors' 3.2 per cent.

Renault is again leading the way among the foreign marques with 8.4 per cent this year. Ominously, its Renault 5 has slipped from third to fourth place in Italy's top 10 best-selling cars and the French company may struggle to end the year with the 10 per cent it was holding at the end of 1985.

Volkswagen comes next on the list of the Italian consumer's foreign preferences and it is the VW Golf which has displaced the Renault 5 to take number 3 position in the top ten.

John Wyles

Italy's best-selling cars

(Jan-Aug)

1.	Fiat Uno	305,380	(1)
2.	Fiat Panda	114,365	(2)
3.	VW Golf	68,635	(4)
4.	Renault 5	62,235	(3)
5.	Fiat Regata	50,555	(5)
6.	Fiat Ritmo	42,195	(6)
7.	Autobianchi Y10	41,135	(10)
8.	Lancia Prisma	37,795	(7)
9.	Peugeot 205	34,605	(9)
10.	A Romeo Alfa 75	30,880	(—)

End-1985 positions in brackets
Source: ANFIA

Japan

Profits hit by yen's rise

JAPAN'S MIGHTY motor machine is changing gear. With the dizzy ascent of the yen have come reports of tumbling profits from Japan. There is speculation that Nissan could be heading for its first operating loss in more than 30 years.

Number one, Toyota, has returned a fall of 35 per cent in operating income for the year ended last June. Capital expenditure is being cut back as a result.

Squeezed export margins have sent Mazda's earnings tumbling by over 50 per cent (six months to April 1986); Honda has disclosed a 37 per cent drop in first quarter profits this year and Fuji is forecasting a further 23 per cent fall in current year earnings. Overall, an average 40 to 50 per cent is expected to be sliced off 1986 earnings for Japan's motor sector.

At the root of the problem lies Japan's high-flying yen which threatens to push prices up to uncompetitive levels on key export markets. From an average Y240 to the dollar in 1984 the yen has risen to almost Y150 and ominous predictions of a further advance to the Y120-130 level persist.

Thriving overseas sales are essential to Japan's role as a world producer—at the head of the league. Of the 4.7m cars produced in Japan over the first seven months of this year, almost 60 per cent were for export. Despite exchange setbacks, exports climbed by more than 10 per cent over the period, confirming the policy that Japan's hard-pressed producers have adopted—that of maintaining volumes at any cost.

Over the first half of 1986 the all-important US market absorbed almost 50 per cent (1.2m) of Japan's shipments of passenger cars, ahead of Western Europe with 740,000 exports—and increase of more than 40 per cent until an enforced cutback in July.

In August, both Toyota and Nissan reported a dip in exports, and from the Economist Publications (Japanese Motor Business quarterly) has come a forecast of a drop in both exports and production next year.

Not only has the yen risen by a third against the dollar since last September, it has also gained 40 per cent against South Korea's increasingly competitive won and over 10 per cent against the leading currencies of West Europe.

Last October, Mr Takashi Ishiharar, chairman of Nissan and of JAMA, the motor manufacturers' association, highlighted the dangers posed by a rapidly-appreciating yen. His words then were that "Y220 to the dollar is the maximum rate that most Japanese exporting corporations can withstand.

"At Y200 to the dollar, export industries will suffer a devastating blow ... During the high yen period of 1978-79, Japan's auto industry was driven to the wall... When it hit Y176 to the dollar, Japanese automakers lost price competitiveness in the US market, with inventories rising to a half-year's sales."

With the worst excesses of that period now a pale reflection of the yen's latest standing Japan's producers are urgently tackling radical new ways of easing the crisis.

So far, Japan's producers have been eating into their unit margins in an attempt to maintain prices—particularly in the key US market—at competitive levels. In the case of Nissan, for example, while the yen rose by 50 per cent against the dollar the company raised its US prices by a total of only 11 per cent.

US dealers were drawn in to accept a parallel reduction in unit profits. It is the cost of this stopgap strategy, and a refusal to sacrifice market share overseas, which has sent Japan's earnings tumbling.

Faced with this crisis, Japan has established a 73bn emergency loan programme for exporters. This move has been criticised outside the country as a veiled export subsidy designed to maintain Japan's enormous trade surplus with the West. Most recently this has been reinforced with a further Y12bn "Economic Structural Adjustment Fund" for those companies most hit by the rising yen, and a further supplementary budget is now being prepared.

Various belt-tightening measures have been adopted by the vehicle producers themselves. Nissan's executives took the initiative with a 10 per cent cut in income. Mazda's managers followed soon after. Dealer networks have helped with a cut in unit margins.

Honda is tackling shipment costs by using empty vehicle containers to ship cereals on the return journey to Japan. To help cut production costs Mazda is taking a lead in stepping up overseas sourcing of components—prices of which have dropped noticeably, in line with the appreciation of the yen.

At the same time Japan's producers are stepping up their efforts on the domestic market. Demand has remained sluggish, however, with new car sales up by just over 2 per cent to July and a downturn reported in August.

Japanese producers are stepping up their new model programmes in an attempt to boost domestic sales. Headed by Civic 1500 and Accord saloons, Honda's sales are gaining. The success of Gemini models has also brought a sharp recovery for Isuzu.

An expanded salesforce, aggressive promotional efforts and the addition of several new models have boosted Toyota's sales, but there have been setbacks for Nissan, and some of the smaller, specialist producers are being squeezed by the intense competition for sales.

The Isuzu Trooper, which is to go on sale in the UK soon. Pressure from the yen and its inflated purchasing power overseas have prompted Isuzu and other Japanese makers to consider setting up new plants overseas.

As a result of this pressure, an unlikely alliance has been formed between Suzuki and Isuzu. Under this arrangement both companies are to co-operate in the production and marketing of passenger cars and commercial vehicles.

New tie-ups of this sort are expected to become increasingly familiar as Japan progressively adjusts to new competitive pressure. Most recently, Mazda and Mitsubishi have agreed to co-operate in the joint sourcing of components in an attempt to hold down vehicle production costs.

Under pressure from the yen, established relationships are also being reviewed. Nissan recently decided to cancel a long standing contract build arrangement with Fuji under which the latter was producing 60,000 Nissan cars per year; in one move Fuji saw its annual output prospects tumble by 10 per cent.

With their protective umbrella removed, Japan's smaller specialist producers are expected to become the renewed focus of attention by major predators overseas.

At the same time the threat to earnings is prompting Japan to accelerate plans for overseas facilities—now looking increasingly cost competitive. Here again, convention is being abandoned as, from separate camps, producers Fuji and Isuzu have recently agreed to pool resources in establishing a US facility.

In a tactical response to the stronger yen Toyota has advanced the start-up of its US, Kentucky plant by six months. Nissan has brought forward phase two of its UK build programme, and Mitsubishi is negotiating an increase from the originally planned 180,000 to 240,000 units at its US joint venture plant with Chrysler.

Pressure from the yen—and its inflated purchasing power overseas—have also prompted Isuzu, Subaru and Suzuki to consider setting up new plants overseas. At the same time the value of the model mix being produced in these foreign assembly locations is being moved upmarket in favour of larger, higher margin models.

A move upmarket was an early tactical response by Japan to the creation of export quotas. Across the market Japan's price profile is about to be raised further as new technology items including electronically-controlled suspension, CVT (continuously variable transmission) and advanced four-wheel steering systems are grafted on.

In this way, from the smallest car upwards, Japan is planning to offer a very high-specification export package in an attempt to justify prices which threaten to edge ahead of those of its European competitors. An all-out assault on the lucrative US and European markets for executive/luxury saloons is also being prepared.

Honda has shown the way with the jointly-conceived Legend series. Nissan is working hard to prepare Cue-X for a US launch in 1987-88 and Toyota has disclosed plans for the development of a new full size (5 metres long) model to be equipped with a V8 4-litre engine.

Even Japan's second-tier producers have sights fixed on this top sector. Subaru is putting the finishing touches to a new model due to be unveiled late this year. Powered by a 2.7 litre flat six engine, the newcomer will also feature anti-skid braking and electronic suspension.

This latest push upmarket does not mean Japan is preparing to abandon the small car sector, but tactics are being revised. Since August, Toyota has been exporting a revised two-door Tercel hatchback to the US market. A notchback version, exclusively for US dealers, is to follow in January.

Significantly, both models have been specially tailored to hold prices down below the $6,000 level in a direct effort to stave off South Korean competition.

Last May, Nissan also introduced a stripped down version of its compact Stanza model in a similar attempt to hold down US prices. A $700 price disadvantage over US rivals was tackled by reducing equipment levels and this is a precedent which could be followed on other export markets.

At the same time South Korea is being drawn increasingly into Japan's motor industry plans. As well as a source of low-cost components it is being evaluated, along with Taiwan, for cut-price production of complete vehicles.

Nissan has been looking at the possibility of having its affiliate in Taiwan, Yue Loong, build low-cost versions of its one litre March (Micra) model for sale in the US under Chrysler's brand name.

Fuji has been considering licensing Sanfu Motors of Taiwan to produce one litre cars for export to the US and Southern Asia, and Mitsubishi is to import from South Korea about 12,000 car bodies per year, produced under a joint venture agreement with Hyundai.

Clearly the more radical consequences of the advance of the yen are just beginning to get underway, but Japan is rising to the challenge.

Ian Robertson

Nissan's Cue-X, being prepared for its US launch in 1987-88.

Taiwan

Settled pattern of joint ventures

TAIWAN'S automotive operation is not what one would call an industry, despite goverment efforts to the contrary. Instead, six joint ventures with major foreign producers assemble mostly western-designed cars from locally-made and imported parts, and sell them to Taiwanese consumers at prices roughly double those they would pay elsewhere.

That scenario, however obvious and obnoxious to consumers as it may be, is not likely to change soon, although a new automotive development plan adopted by the central government will more than halve tariffs on imported autos over the next six years and thus press local assemblers to lower their prices.

Taiwan, with a population of only 19.5m, hardly presents the mass market that large-scale manufacturers need to lower their costs. Further, with road and parking infrastructures already stretched to saturation, manufacturers cannot hope for substantial growth in even this limited market.

Most of the island's assemblers—joint ventures whose foreign partners include Ford (Australia), Nissan and Honda (Japan), and Renault and Peugeot (France)—are now running at around 50 per cent of capacity. They make and sell enough cars to satisfy the government's need to prove that it has provided its citizens with the "better life"—as opposed to the poverty it insists exists under the Communist system in force on the Chinese mainland—but not enough to persuade the companies themselves to engage in more full-scale manufacturing here.

That was not always the case. During the early part of this decade, the government was determined to build up an indigenous automotive industry that would eventually compete with major world makers. Former Economics Minister Y. T. Chao, now head of the Council for Economic Planning and Development, championed the so-called large automobile plant that, as envisioned, would make Taiwan a major supplier of cars to the world market.

The plan was eventually scrapped, probably beneficially, given the state of Taiwan's support industries and the demands of world markets—when the government found it could not come to terms with its proposed joint-venture partner, Toyota Motors, over questions of export ratios and the project's support of local satellite industries.

The whole project was probably a pipe-dream anyway: Toyota wanted a new channel into the American market, given protectionist actions then threatening in the US against Japanese-built cars. The need for that hedge fell to pieces when Toyota linked up with General Motors of the US for joint production there, although the Taiwan connection continued to provide a plausible base for future exports, should the new ventures fail.

The government wanted export rations for the new company pegged to demand in foreign markets and cooperation with local parts producers consistent with its standards, whereas supply oriented Mr Chao, a founder of China Steel, was admittedly looking for more outlets for the steel giant's products without giving much thought to how the project would market all those cars.

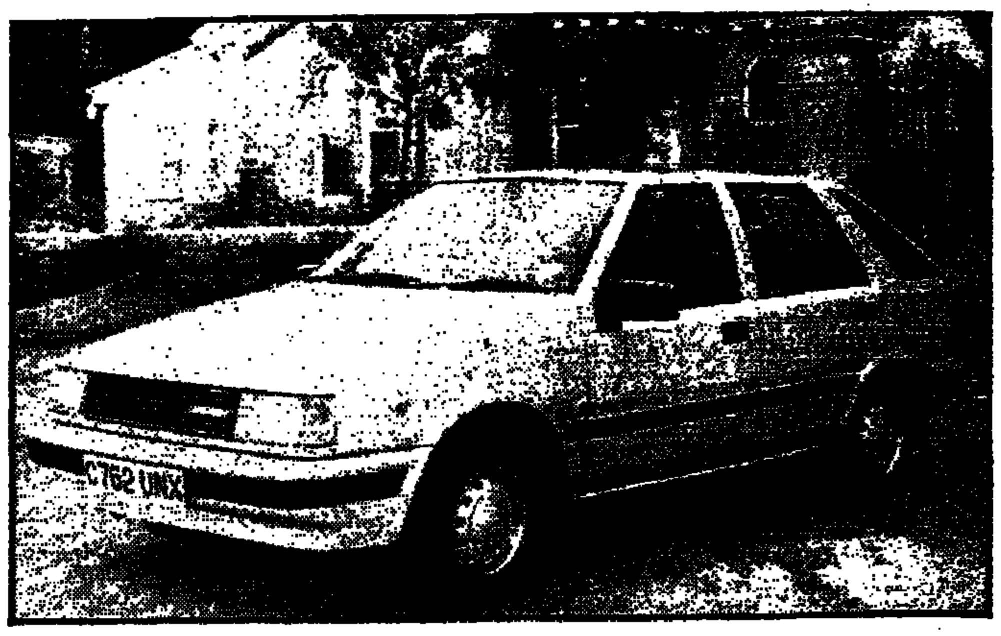
So, Taiwan's industry is left with assemblers, Ford Liu Ho, Yue Loong Motors (Nissan), Sanyang (Honda), Renault and Peugeot. All are battling for shares of the tight local market and, with the projected entry of new manufacturers such as Subaru into the market and the lowering of duties on fully-assembled imports from 65 per cent last year to 30 per cent in 1992, that battle will clearly become much tougher to win.

Indeed, most manufacturers here are concerned about the growth of imports, which according to the Ford affiliate will capture 20 per cent of the Taiwan market this year. Most imports come from Europe, and models from Seat of Spain, Fiat of Italy, BMW, Audi, and Daimler-Benz of West Germany, Volvo of Sweden and British Leyland cruise the crowded streets of Tapei.

So far only one of the local assemblers, Ford Liu Ho, has ventured into the export market. Ford in July of this year began exporting its Mercury Tracer hatchback (which in Taiwan is marketed as the Ford Laser) to Canada, with a launch due this month. The company expects to ship about 6,000 units by the end of the year, and its exports next year could increase significantly if market reaction is favourable. The company also does not rule out exports to other countries if its drive to Canada succeeds.

Obviously, other Taiwan maufacturers are going to have to follow suit or go out of business as competition grows ever fiercer for market share in Taiwan. Indeed, the Government's plan to develop the industry, implemented this year and running over six years, contains provisions and incentives to upgrade the industry, promote the establishment of satellite industries, and implicitly and explicitly to push exports.

Robert King



The new Hyundai Pony model, an unqualified success in North America. The step-by-step build up of co-operation and joint ventures between South Korean makers and the manufacturers of North America and Europe has brought about an unprecedented demand for cars which has made the penetration of overseas markets easier.

Mexico

Aiming for exports

FORD OPENS a $500m new assembly operation in northern Mexico next month to produce 130,000 sub-compact cars a year, most of them for the US market.

The venture is the latest and most convincing sign that Mexico's motor industry—buffeted by the country's worst economic crisis for half a century—is striding firmly in the export direction it started to take before Mexico's financial collapse in 1982, and is increasingly becoming an integrated part of the North American car industry.

The industry's foreign exchange contribution to Mexico, which this year will lose a third of its originally projected export revenue as a result of the oil price collapse, is growing. Mexico's importance to the industry, above all as a source country interlocking with the world car production jigsaw, is also increasing.

The domestic crisis has brought production in the first six months of this year back to levels of 10 years ago, and to just over half the industry's annus mirabilis of 1981, at the height of the oil and credit-fired boom before the bust, when some 360,000 cars and 240,000 trucks and buses were produced.

Domestic sales are also down half on 1981 and 34 per cent on last year, the result of an up to 5 per cent of GDP fall in growth this year, historically high interest rates, an average 40 per cent loss in Mexicans' real purchasing power since 1982, and an unprecendented credit squeeze whereby the debt-strapped government has monopolised more than 90 per cent of all bank credit for the past 15 months.

Yet, though most car executives do not expect to see pre-crisis output and sales restored before the end of the decade, the parent companies they represent (principally Volkswagen, Ford, Nissan, Chrysler, GM and Renault/American Motors) have collectively invested a good $2.5bn since the crisis began.

The new money has gone into engine factories (Ford, Renault, and VW, which finished a $250m plant before the crisis) assembly operations (Ford, Nissan and Chrysler), and buying into ailing local truck producers (GM and Daimler-Benz).

The investment, and the government's enforced rationalisation and regulation of the industry under which it has taken place, has produced a major turn round in the sector's trade balance. In 1981, the car industry showed a foreign exchange deficit of $2.6m, three-fifths of that year's trade deficit. Last year, the sector posted its first surplus of $210m, exporting $1.6bn and importing $1.4m.

The industry as a whole provides Mexico's largest non-oil export, and will this year become its second largest foreign exchange earner, though in net terms tourism, the "in bond" assembly sector, mining, and even agriculture in a wet year, show a higher trade surplus.

In particular, Mexico is now a major car engine centre for the US, exporting over $1bn-worth last year, as well as $450m in other car parts, so that a VW Golf purchased north of the border, for example, could very likely have up to 40 per cent Mexican content.

The interest of Mexico, which needs to generate large trade surpluses to keep financially solvent, and the multi-national manufacturers, have now largely coincided, after a good deal of anguish and confusion over regulation.

The government has allowed 100 per cent foreign ownership in the sector, but following the crisis has modified legislation to oblige manufacturers to reduce the number of models they make and to export more.

From next year, they will be able to produce only one type of car each and up to five versions of it (VW's Golf and Jetta, say, would count as one type), unless they sell more than half their output abroad, and finance anything extra through their own foreign exchange earnings.

The gradual introduction of these regulations on a sliding yearly scale has involved car makers in exporting eccentric items ranging from honey (Ford) to horse meat (Nissan) in order to keep up with foreign exchange target.

Most manufacturers in Mexico with long-term plans are looking to export about three-quarters of their output, and increasingly in the form of built-up vehicles as well as parts.

Ford will shortly be exporting about 100,000 of its sub-compacts a year, eanring net foreign exchange of about $300m. Chrysler's year old Ramcharger pick-up venture is on target for planned foreign sales this year of 30,000 and gross earnings of $300m.

For those not locked into major export ventures, the pace of domestic competition is accelerating. VW, traditionally the leading manufaturer, required a $200m re-capitalisation from its parent this year to compensate for exchange rate losses and defend market share.

VW still accounts for a third of all cars sold in the country and retains the lead position in market share with 23 per cent overall. But Nissans's Tsuru range has now far outstripped either the Golf/Jetta or the traditional VW Beetle, still made in Mexico and its most popular car.

The field has thinned out with Renault's recent closure of its assembly operation in Hidalgo in central Mexico, adding substantially to the 100,000 jobs (roughly half of the industry's workforce) lost since the crisis began.

Renault retains its $350m engine-making subsidiary in Gomez Palacios near the Californian border, despite its failure in the spring to secure a partnership with GM on outlets for it potential output.

GM's future plans here remain the talking point in the market. It has nibbled at existing local ventures and exports. Its popular El Camno an Cavalier luury pick-ups but several of its competitors suspect it may have something more ambitious in mind for the future.

David Gardner

South Korea

Exporting to major world markets

SOUTH KOREA has started aggressively exporting automobiles to major world markets while Taiwan, Korea's closest industrial neighbour, has mostly just talked about becoming a force in the world automotive industry.

Part of that aggressive foreign marketing stems from sluggish home demand which forces Korean manufacturers to look abroad for substantial sales. But a larger contribution has come from step-by-step planning over years, integration of parts manufacturers into supply systems to the major automobile builders, government encouragement in the form of low cost financing for components suppliers, and, last but not least, co-operation by fledgling Korean auto makers with established companies in the US and Europe.

All of those factors have paid off in the form of increasing shares of the American and Canadian markets which have provided the South Korean automotive industry with an unprecedented boom in sales over the last couple of years.

According to the Federation of Korean Industries (FKI), South Korea's automotive exports during the first four months of the year totalled 87,623 cars—a 100 per cent increase over the same period in 1985.

Projections indicating that the growth will not abate for some time have prompted Korean car manufacturers to expand their production capacity.

For instance Hyundai Motor Company which was the first Korean manufacturer to launch its cars in North America and has since built up a sizeable following in both Canada and the US with its "Pony" and "Excel" models plans to set up additional production facilities with a capacity of 300,000 units annually by the end of this year. This will bring its total capacity to 450,000 cars a year.

Daewoo Motor Company, which maintains joint ventures or technical co-operation agreements with General Motors of the US and Adam Opel of West Germany, and has previously exported cars to the Middle East, South America and Africa, plans a new passenger car production line with an annual capacity of 167,000 units giving the firm a total capacity of 248,000 cars.

Finally KIA Industrials Company which plans to introduce a new front wheel drive model in co-operation with Mazda of Japan, will step up its capacity by 120,000 units to 230,000 units a year. Together the expansion projects of the three major manufacturers will bring capacity close to one million units a year.

All of this activity represents several long steps away from the South Korean industry's humble beginnings in the early 1960s. Originally Korean car makers simply assembled semi-knock down parts. A decade later, though, they were importing complete knock down parts and in the mid 1970s began adding a Korean flavour to what they were building with the introduction of such models as the Pony, the Maepsy-Na and the Excel.

At the same time the local content ratio of Korean made cars began to rise as a result of industry's and government's encouragement of industrial integration between component makers and car makers. Average local content stood at about 60 per cent in 1975 among Korean car makers, but in late 1984 Hyundai Motor Company was claiming a local content ratio of 98 per cent on its Pony model.

Technical co-operation and joint ventures with major international firms such as General Motors, Ford, Mazda, and Mitsubishi helped push developments and made penetration of overseas markets easier. An article in the magazine Korean Trade and Business of last year for instance cited the industry's strong dependence on such co-operative efforts.

In 1982 there were 57 technological co-operations and 17 joint ventures involving major automotive components including transmissions, engines, rubber parts, and electronic devices, it reported. These co-operative arrangements had allowed the industry to make the quantum leap from churning out labour intensive replacement parts to complex, state of the art original equipment manufacturing processes.

In short South Korea has determined to become a major force in automotive and components manufacturing. Spurred by its initial marketing successes in the North American countries, Korea can be expected to build its strength in those markets, filling low cost but quality niches that have been vacated by the Japanese.

Robert King

The Daewoo LeMas, South Korea's versin of the Opel Kadett being produced by Daewoo Motor Company, a 50-50 joint venture company between General Motors and the Daewo industrial group.

Brazil

Huge demand dampened by strikes

AN EXPLOSION in the consumer demand for cars should bring smiles to the faces of Brazil's car manufacturers. Instead, there are worries about how to keep the industry's largest ever labour force at work as intermittent strikes and supply shortages make finishing a car a nightmare for production supervisors and materials managers.

Brazil is experiencing a consumer boom with no equal in recent memory. Since the government brought in its price freeze in late February and mandated an average 8 per cent across the board wage increase to workers, consumer goods manufacturers have been falling further behind in the race to boost production to meet what seems to be an insatiable demand.

General Motors' executive director of finance in Brazil, Mr Richard Wagoner, says the industry has such a backlog on orders that no one knows what the size of the market really is. A government surcharge of 30 per cent on the retail price of new cars brought in two months ago has yet to dampen new orders. Depending on the make and model, buyers still have to wait for two to six months for delivery of their new cars.

A simple run up in production to capacity levels has not happened because of intermittent strikes within the industry and at suppliers, price disputes on components and autoparts and raw material shortages which have cropped up frequently.

With stop and go supply, three of the major manufacturers Ford, Fiat and Volkswagen, put whole operations on collective vacation breaks for days in July or August, resulting in cutbacks. Production fell 8 per cent in July compared to the previous month and declined another 8 per cent in August, according to National Automobile Manufacturers Association figures.

Government efforts to win concessions from suppliers, auto manufacturers and raw material producers resulted in a temporary improvement for car production in September, but few industry experts hazard a guess as to how long the situation will remain stable. In an overheated economy, shortages are natural, but if government measures to cool off demand are not taken shortly, businessmen fear yet more bottlenecks and price pressures.

Despite the recent problems on the year to end-August, production was up 25.3 per cent and domestic sales were ahead 31.8 per cent over the same period last year. In August, the industry hit a new record in employment with 156,355 workers, surpassing a previous high in 1980.

Strong domestic demand would be a cause for euphoria were it not for the freeze on car prices. A Volkswagen spokesman estimates that the accumulated lag in prices to cost rises before the economic adjustment measures took effect in late February is 30 per cent.

The government has generally turned a deaf ear to industry's complaints and pleas for price relief. The few exceptions have been price increases granted recently for some 1987 models which the government justified because the new cars incorporated new technology and improvements.

Manufacturers point out that there are means to provide relief to the industry without raising retail car prices and threatening the government's anti-inflation strategy, but the government would have to reduce its tax bite.

Despite the fact that car prices to the consumer are roughly on a par with similar models in the US and West Germany, the car manufacturer in Brazil receives half as much as his counterpart abroad. On a basic two-door model of a popular car selling for US$4,750 in Brazil, the government takes 61 per cent in taxes and surcharges.

On the export market, manufacturers are more optimistic. Exports totalled more than $1bn through August, ahead 3.7 per cent over the same eight months last year. The industry continues to rely on sales abroad to make up for losses on domestic sales volumes.

Meanwhile, it can only play a waiting game with the government to see how long the current crisis continues. As one manufacturer comments: "We've had our ups and downs before, but this is one of the tighter times."

Ford and Volkswagen are still negotiating on alternatives for joint manufacturing or facility sharing as a means of reducing costs. General Motors is continuing its programme of investments which include the launching of the Kadett in late 1988, but the company is attempting to invest only in the areas where added value can be reflected in price.

Ford has conditioned a $100m investment over the next two years for new products, improved manufacturing and expanded capacity on improvements in supply and corrections of price/cost distortions.

Fiat which plans to expand its production from 200,000 to 270,000 cars by the end of next year has resorted to importing some parts and still had 2,500 incomplete cars at the end of September. Director superintendent Mr Silvano Valentino says that the company is maintaining its programmed investments of $150m a year through 1988 because he is certain that the current distortions in the market will be overcome.

However, putting the current crisis in perspective, Mr Valentino says: "A sector that invests in the future and has confidence deserves correct prices."

Fiat, which reported net profits of $44m for 1985, expects this year to be lucky to show only a modest profit. General Motors expects to show some profits because of improved exports.

Last year, Ford reported earnings of $29m while Volkswagen made a loss of $35m. Volkswagen does not expect this year's performance to show a profit. No projection was available from Ford.

Ann Charters

India

A 1950s comeback

INDIA'S oldest production car, the Hindustan Ambassador based on the Morris Oxford of the 1950s is making a comeback.

Just when it was to be slowly phased out of production, it is attracting increased demand and the Birla family who run Hindustan Motors are talking about rejuvenating it with a modern 1.8 litre Isuzu engine inside its ample Morris body, as well as going ahead with a somewhat less popular cross-breed called the Contessa that uses a Vauxhall Victor body from the UK of the 1970s.

Such is the unsettled state of India's automotive policy, four years after Japanese manufacturers started to move into the country, that while the world's major manufacturers are waiting for long-delayed government guidelines on future investment, purchasers are reacting against cramped new Japanese and other models and are opting instead for the space, style and safety of this sturdy Ambassador model that they have universally condemned for more than a decade.

The Japanese invasion of India has brought a highly successful Suzuki 800cc car to the roads, with van and other derivatives. But it has also brought a surfeit of expensive Japanese manufacturers into the light commercial vehicle market, where there is now serious over-capacity, and so many two-wheeler manufacturers that some shake-out seems inevitable in the future.

Steep falls in the value of the Rupee against the Japanese yen have boosted costs of imported components and technology by over 60 per cent at the beginning of these ventures when local content is low and imported content high. This has helped to depress sales of Nissan, Toyota, Mazda and Mitsubishi light commercial vehicles, already facing low levels of demand, so that only 100 to 200 vehicles a month are being produced in factories designed to make more than 1,000.

Cars used to be one of the lowest development priorities for India and demand was met by the Ambassador and a Fiat 1100 based-model of similar vintage produced by Premier Motors of Bombay, part of the Walchand Group.

In 1982, after years of procrastination, the Indian government chose Suzuki as the partner for Maruti, a public sector company which had a large purpose-built factory outside Delhi but no car to build.

Suzuki took a 26 per cent stake in the company and has installed Japanese designs and methods with such success that it is ahead of schedule. This year it has introduced a new 800cc model and is now producing 85,000 cars and derivatives a year.

It is aiming to produce 47 per cent of the vehicles in India this year under its indiginisaton programme and is preparing to export on small quantities to Bangladesh and, as part of an engineering counter trade deal, to Hungary. The plans are for production to rise to 140,000 vehicles by 1990, boosted by a new 1000-1300cc Suzuki Maruti hopes the government will allow it to produce.

In the wake of Suzuki, virtually every Japanese automotive industry manufacturer quickly tied up assembly and progressive manufacturing deals with Indian companies for two-wheelers and light commercial vehicles. This was boosted last year by a change in the operation of India's highly-restrictive industrial policy which introduced a concept of broad banding in various industries.

Under this, all four-wheeler manufacturers could switch production from one model to another, and also introduce new models, without needing industrial policy approvals. A similar system was introduced for two-wheelers.

This unleashed a number of proposals for importing new car models which scared the government because of the high expenditure of foreign exchange needed to set up the assembly lines, import components and develop manufacturing. As a result all the applications were called in by the government.

There are now as many as seven or eight applications pending or expected in addition to two British cars which are being produced in small quantities in southern India: the Rover 2000 by Standard Motors (wholly Indian-owned) in Madras, and the Reliant Dolphin glass-fibre saloon by Sunrise of Banglore.

The two front runners for approval by the government are an Isuzu 1300 saloon proposed by Hindustan Motors and a similar-sized Nissan from Premier Motors. Both have the advantage that they are being proposed by existing manufacturers capable of a high level of immediate local input and needing only limited foreign exchange.

Next is the Honda Accord which Telco, the commercial vehicle offshoot of the giant Tata industrial empire, wants to produce at a rate of 35,000 a year. It has no previous car building experience but has a high reputation for engineering and production skills and would be expected to achieve high local input quickly.

Next comes Escorts of New Delhi which produces tractors and motor cycles and wants to introduce the Citroen 2CV car, and Mahindra and Mahindra of Bombay, which wants to diversify from four-wheel-drive vehicles to Peugeot cars.

Finally, Fiat and Volkswagen are reported to have tied up with relatively little known companies in southern India.

Delhi Cloth Mills of Delhi wanted to introduce Toyota cars until it ran into sales problems with its recently-introduced Toyota light commercial vehicles, and Sunrise Auto has been rumoured to be in touch with Subaru of Japan.

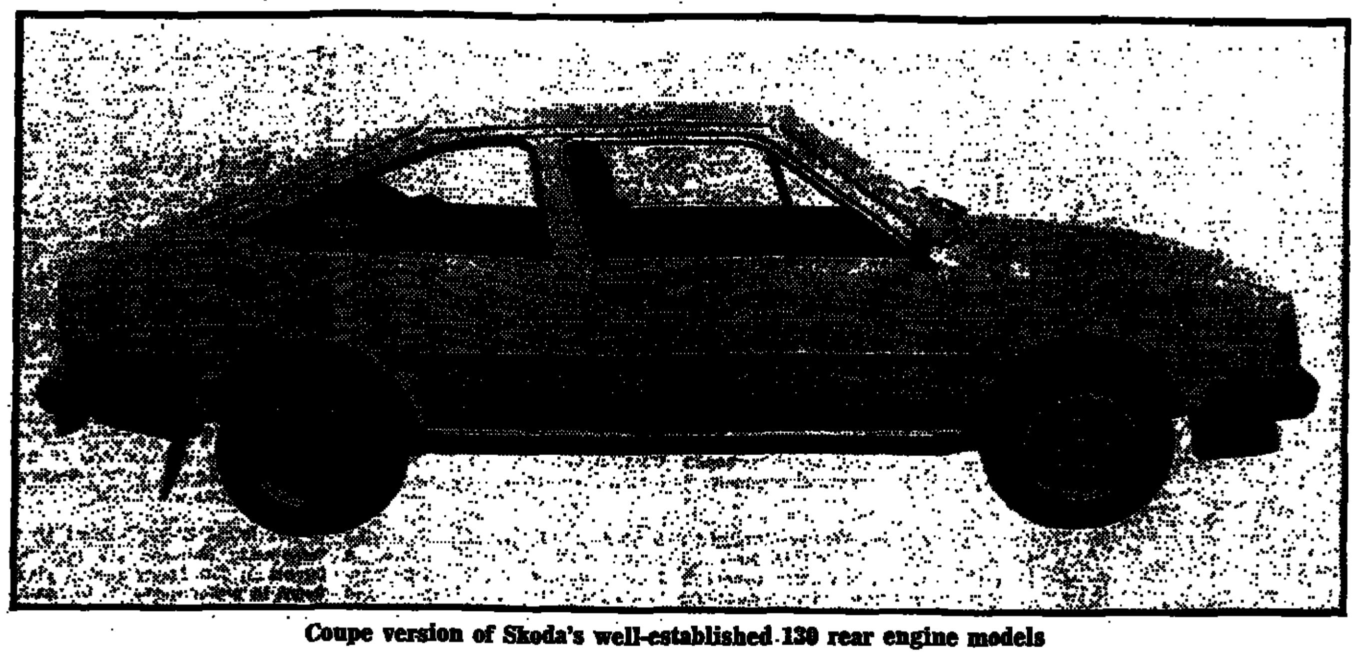
The basic problem is the size of the market. Car production has shot up from 47,000 a year in 1983-84 to a forecast 135,000 in 1986-87. But this is only expected to grow to 200,000 by 1990 of which Maruti expects to provide 140,000.

The remaining 60,000 would not require any more models beyond the proposed Isuzu and Nissan cars from the two existing manufacturers in the 1000-1300 range plus, possibly, Telco's larger Honda Accord which might find a slot and even replace Hindustan's existing large 1.8 litre models and even also rival Standard's Rover model.

The government could open up the competition by refusing Maruti permission for its larger model, but this seems unlikely. Maruti has strong backing in the government which is protecting it from competition in the 800 cc range.

A new policy to deal with these applications is now awaited. It is expected severely to restrict the number of new car entrants to the industry, emphasising that proven track records are needed for high local manufacturing content.

John Elliott



Coupe version of Skoda's well-established 130 rear engine models

Eastern Europe

Wider links with the West

EASTERN EUROPE'S car industries are moving—at various speeds—towards wider co-operation with Western manufacturers.

Poland, which is Comecon's second largest carmaker, was put on wheels by the more than 2m tiny 126p cars which have been produced under a Fiat licence since 1973. Earlier, the Turin carmaker licensed production of the Polski Fiat 125p, essentially the same car as the Lada made under licence in the Soviet Union.

Both polish Fiat cars are now dated and the FSM plant in southern Poland which makes the 126p is to be re-equipped to produce a restyled model by next year under an agreement with Fiat signed last year.

The Italian auto giant is providing FSM with $50m in machinery, services and technical aid under a five-year credit, and will continue to import 126p models for its Western sales network.

FSM produces just over 200,000 126p vehicles and exports 67,000 to the West. The FSO car Factory in Warsaw, which makes the 125p and the Polish-designed Polonez hatchback has an output of about 92,000 units. It exported 40,000 cars last year, mainly to western Europe and China.

The urgently-needed modernisation of the FSO plant to make a new model has been held up by protracted negotiations with Western carmakers.

Several contenders have dropped out of the running, leaving Fiat and Daihatsu, the Japanese compact car producer, still in with rival bids.

FSO estimated that $150m in hard currency was needed to modernise its plant and to turn out a new 1200-cc model for domestic and Western markets.

A combination of government and commercial loans will be needed from the successful bidder and their availability is likely to determine which party clinches the deal with the financially hard-pressed Polish government.

The largest market for the 125p and the Polonez is China, which is taking 10,000 cars this year—the same number as in 1985—followed by the UK where 7,500 cars were sold (the target for this year is 8,400), Denmark and Belgium.

The figure of nearly 40,000 exports to the West last year included 8,000 sales to Poles for hard currency. They got three months' delivery instead of the normal five-year waiting period. The 126p costs $1,550 and the 125p $2,460 in Poland.

Unlike Poland, East Germany which has a long tradition of car manufacturing in central Germany, had no links with Western car manufacturers until late 1984 when it signed a DM 500m contract with Volkswagen.

Under the contract terms VW is delivering an engine assembly line to produce 386,000 units annually of which East Germany will retain 286,000 engines and deliver the rest to VW as repayment.

The engines deal became necessary because the two-stroke engines powering East Germany's two car models, the minuscule Trabant—Eastern Europe's version of the Beetle—and the Wartburg, are highly polluting.

Noxious exhausts from the petrol-oil mixture have prevented the cars being sold in the West in recent years. Starting in 1988, the Wartburg will have a VW Golf 1300-cc engine and the Trabant a smaller VW Polo engine.

East Germany boosted output of the Trabant to 138,000 last year and the Wartburg to 72,000 in a bid to satisfy enormous pent-up domestic demand while exporting nearly 84,000 cars, mainly to other Comecon countries. By further modernisaton of the cramped Wartburg factory in Eisenach and the Trabant plant in Zwickau, output is to be further raised to 220,000 cars.

Waiting times for the two East German cars average beween 10 and 12 years and the 31,000 cars imported last year—mainly Ladas, Skodas and Dachias but also some Western cars—were but a drop in the bucket.

East German car buyers are getting models which were first produced in the early 1960s. The Trabant, with a glass fibre body and 600cc engine, sells for 8,050 marks ($2,000) for the basic version and 11,000 marks if the buyer wants an improvement to the steering wheel, better tyres and other "optionals."

Similarly, the Wartburg with a 1,000 cc engine sells for 18,000 marks but essential optionals bring the price up to 21,500 marks.

There appear to be no immediate East German plans to develop successors to either of the ageing models. East Germany, with more than 3m cars on the road, along with Czechoslovakia, has the highest density of private cars in the Comecon countries—one for every second household.

An agreement in the 1970s for East Germany to join forces with the Czechoslovak motor industry to produce a jointly-developed engine and car collapsed when neither side could agree on the essentials.

Czechoslovakia's Skoda concern also has a long car-making tradition and thus saw no need to co-operate with Western car companies until recently.

But the decision to introduce a new front-wheel drive model to replace the current one produced since the mid-1970s involved the purchase of $75m in Western production equipment plus licences to produce components.

The new Italian-designed Skoda is to be introduced next year but Skoda is reluctant to discuss details as it understandably does not wish to depress sales of the present model.

Skoda production last year was 180,000 cars, an apparent drop from the peak of 190,000 in previous years. One reason may have been reduced demand in anticipation of the new model. Some 110,000 cars were sold domestically in the past and the remainder exported.

Sales of Skoda to its previous leading buyer in Comecon, East Germany, have dropped sharply in recent years parallel with the fall in East German exports of Wartburgs and Trabants to Czechoslovakia.

Britain is the largest Western export market for Skoda with 9,885 sold in the UK last year and a target of more than 11,000 cars this year. Denmark is also an excellent market, absorbing some 7,000 Skodas annually.

The Skoda is generally regarded as good value for money. However, the new model undoubtedly will be more expensive because of the more modern engineering involved.

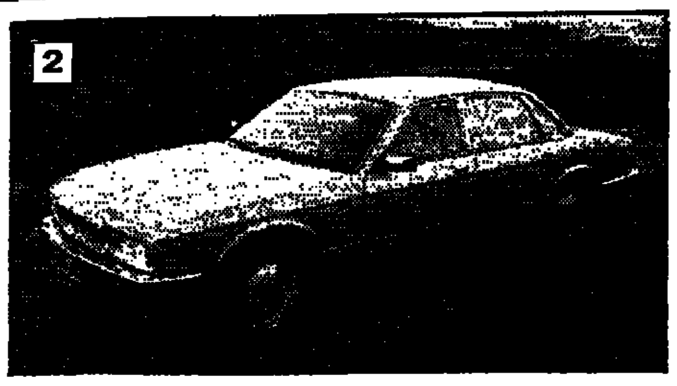
Mr Jan Machaj, general manager of Motokov, the foreign trade organisation which sells Skodas abroad, said that production could be boosted to more than 200,000 units a year if sales of the new car in the West warranted additional investments.

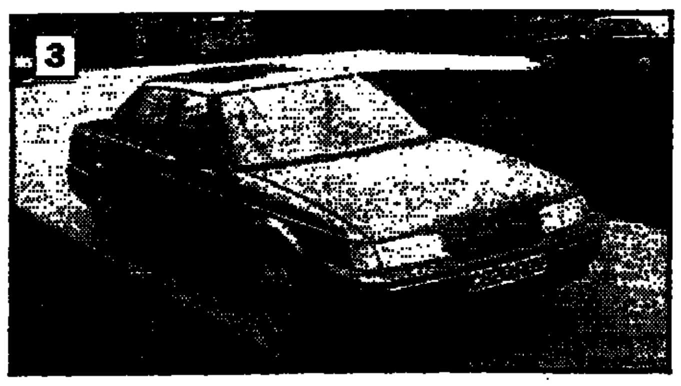
Czechoslovakia produces one other passenger car, the Tatra limousine, which is reserved for use by senior Czechoslovak officials. Only 300 of the sleek Italian-designed cars are hand-built annually at the Tatra plant which normally turns out rugged trucks and heavy equipment. At the recent Leipzig East-West trade fair crowds of critical prospective buyers surrounded Romania's Dachia car. Not because it was a new model—it is based on the Renault 12—but because demand for the Dachia is less than for other imports unless the waiting period is shorter.

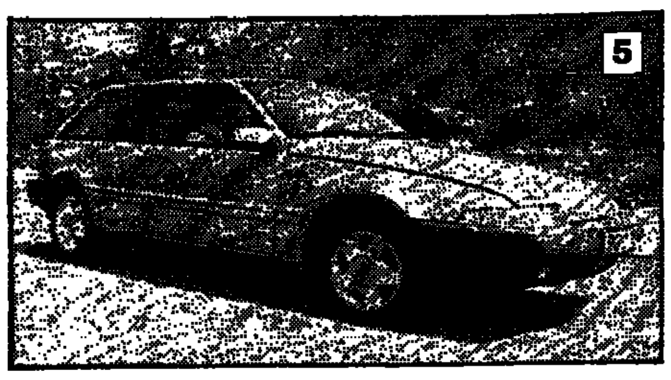
Romania, which has Eastern Europe's newest car industry, produces more than 100,000 cars annually and is making efforts to improve their quality in order to sell more cars in the West.

Romania also produces a Citroen-licensed car called the Olcit as well as the ARO, a four-wheel-drive all-terrain car which has had some success in foreign markets.

Leslie Collit







1 The new Citroen AX. Conventionally designed though light in weight and cheap to manufacture in a robotised plant. It combines lively performance with exceptional fuel economy.

2 Twenty years after the introduction of the original Jaguar XJ-6 its replacement looks little different. But the engines and transmissions are new and weight reduction aids fuel efficiency.

3 The Rover 800, a joint design and development exercise between Rover Group and Honda of Japan. It has front-wheel drive and a choice of British four-cylinder or Japanese V6 engines.

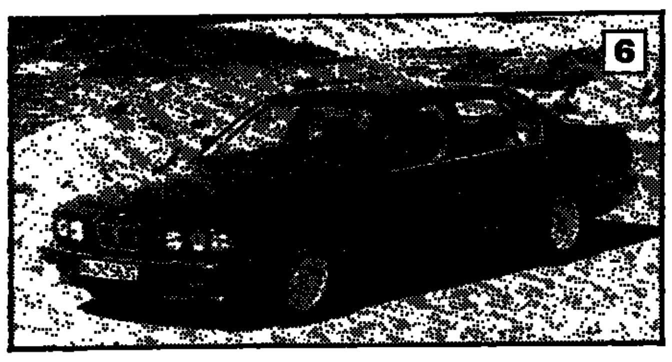
4 Ford Sierra RS Cosworth. Ford's development engineers took a family-type car and, aided by Cosworth Engineering, of Formula One fame, turned it into a 145 mph supercar challenger.

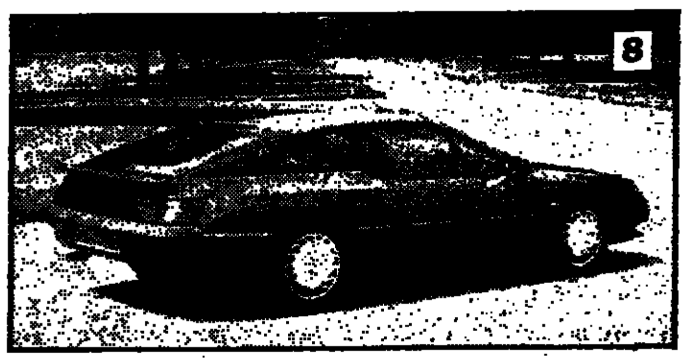
5 Volvo's first front-wheel driven car is the Dutch-made 480ES. Elegant and refined, it will compete against cars like the VW Scirocco in the personal 2+2 class. Saloon developments will follow.

6 The latest BMW 7-series looks remarkably like the old one but buyers in the luxury saloon class seem to prefer evolution to revolution. It features sophisticated electronic systems.

7 Turbocharging boosts power and performance in large, front-wheel driven saloons like the new Fiat Croma. Vivid acceleration demands caution when roads are slippery.

8 The new Renault GTA V6 Turbo. A V6 engine from the Renault 25 is mid-mounted. Top speed is about 150 mph; refinement and lack of noise are surprising for so potent a car.





The new models

Accent is on evolution, or the ultimate road performance

ANY NEW CAR is interesting but a new Jaguar is rare enough to be an event. The new XJ6, Sovereign and Daimler models, talked about for years under the XJ-40 code name, are everything Jaguars are expected to be.

There is nothing revolutionary about them but this is par for the course in the luxury end of the European car market. It is as hard to distinguish BMW's latest 7-Series from the previous model as it is to tell the new Jaguars from the old ones.

They are also remarkably like their predecessors to drive, given that both performance and economy has benefited from the intelligent use of electronics for engine management and performance monitoring. Buyers of this class of car are content with evolutionary change.

Both cars are remarkably similar in concept, with in-line six-cylinder engines driving the rear wheels only through five-speed manual or four-speed automatic transmissions from the same German suppliers. The character of both marques is unchanged. The Jaguar's interior, with soft leather and lots of wood veneer, is as English as Henley Regatta; the BMW's is high-tech Teutonic efficiency personified.

You pay your money and take your choice; rather more money in Britain for the BMW than the Jaguar, Sovereign and Daimler—with the German mark so high it could hardly be otherwise. The Jaguars ride even better than the BMWs; the latter are slightly sportier. Manual gearboxes seem the natural choice for a BMW but rather out of character in a Jaguar.

Pricing of the Jaguars (from a remarkable £16,500 for a basic 2.9 litre XJ-6) looks almost predatory when set against the ambitious £18,795 asked for the poshest Rover 800, the Sterling, which does, of course, have a lot of equipment which costs extra in the Jaguar.

At its launch, the Rover 800 suffered from an excess of hype from its manufacturer and the media nitpicking that was bound to follow. It is a good car, if not quite such a great one as we were told at the time.

Ride quality and quietness are in the Jaguar class; handling and roadholding are fully up to potential users' demands. Greater low-speed pulling power would be an advantage.

The automatic 825i and Sterling, with Honda V6 engines developing maximum torque at 1,000 fewer revolutions per minute than in the manual versions, are the pick of the range. The Rover 800 gives fleet managers the opportunity to buy an up-to-date British-built luxury car for the first time in years.

At the top of the pyramid, fuel injection and anti-locking brakes are now specified for most of the 1987 Rolls-Royce and Bentley models. Mercedes-Benz has electronically-controlled self-levelling suspension that automatically lowers the ride height of its S-Class cars for really high-speed driving and stiffens the shock absorbers when required.

The rush to produce cars that justify their existence, and often their price, only when driven at speeds that are highly illegal anywhere except on West Germany's autobahnen continues. The Ford Sierra RS Cosworth, a 145mph development of a high volume family-type car, is an outstanding example of this trend. At £15,950 it looks absurdly cheap when compared with traditional supercars such as Porsche or Ferrari and is most agreeable to drive.

Renault, too, has edged into the Porsche/Ferrari preserve with its mid-engined GTA Turbo, powered by a similar engine to that used in the Renault 25 saloon. Its 150mph maximum goes with unexpected levels of silence and refinement and a reasonable £23,635 price.

Porsche, whose 928 has a 32-valve, 5-litre, 320hp version of its light alloy V8 for 1987, continues to serve as a quality and performance target for its rivals, three Japanese producers among them.

Downmarket of such cars, though edging ever closer in performance, are the hot hatchbacks—the Golf GTi, Ford Escort RS Turbo, Renault 5 Turbo, Peugeot 205 GTi, Fiat Uno Turbo, Vauxhall/Opel Astra/Kadett GTE among them. They have maximum speeds of around 120 mph, due in part to careful aerodynamic shaping which also makes them economical for motorway cruising.

All use fuel-injected four-cylinder engines that are also to be found in larger cars in the maker's range—the Golf's 1.8 litre, for example, powers the VW Passat and certain of the new Audi 80 saloons. They are such sprightly and long-legged performers that only the need for extra passenger and luggage space can really justify the choice of a larger and less fuel-efficient car.

So far, most makers wanting to boost output of their hot hatchbacks have added turbochargers, but an emerging trend is the use of 16-valve cylinder heads to improve engine breathing. This avoids the cost and complication of the turbocharger and its intercooler and also its principal drawback: the time lag between demanding and receiving extra power at low engine revolutions.

One Japanese manufacturer, Mazda, has given Europe something to shoot at with the 323 4x4 which has fuel injection, 16 valves and turbocharging.

The hot hatchback has spawned two other kinds of compact performance car. These are the personal 2+2 (the VW Scirocco is a good example and the pretty Volvo 480ES a significant newcomer) and the four-door saloon like the VW Jetta GT with the same mechanicals as the hot hatchback.

With outputs of up to 130hp, these potent small cars reveal a drawback of front-wheel drive. They suffer from torque steer—a tendency to pull first one way, then the other—when accelerating hard in low gear, particularly on wet roads.

This is due to their sheer power overcoming the grip of the front tyres. The solution is to put the drive through to all four wheels, thus halving at a stroke the amount of torque each tyre has to put on the road. The calming effect this can have on a small and muscular car was first demonstrated by VW with its 90hp Golf Syncro, which displays uncanny agility on ice and snow and will keep a clumsy driver out of trouble on wet roads.

A similar solution—or perhaps the use of an alternative method, the torque reducer, which works like ABS braking in mirror image—is also overdue in some of the larger, front-wheel driven turbocharged cars. Despite their extra weight and larger tyres, these can feel equally unruly when hard driven on low-grip surfaces.

Audi's pioneering Quattro transmission, a simple system which split the power delivery 50/50 between front and back wheels, showed the way. Ford followed through with all-wheel driven versions of the Sierra and Granada (Scorpio).

Though rear-wheel driven cars stand in less need of all-wheel drive conversion for handling reasons than those with front-wheel drive, it is a great contribution to safety, providing its limitations are realised: four spinning wheels are just as gripless as two. Four-wheel drive does not confer invulnerability.

But once sampled, the safety benefits of all-wheel drive, permanently engaged, are not lightly discarded. The same may be said of anti-lock braking systems which Ford also pioneered as a no-cost standard item on the Granada.

Front-wheel drive is now universal in the three smallest categories of car and has made an important advance into the medium-large sector with the appearance of the Fiat Croma, Lancia Thema and Saab 9000.

Other large front-driven cars are all Audis (unless they are 4x4 Quattros), Citroens, Renaults and the new Rover 800 series. Although the delightful new Volvo 480ES has front-wheel drive, not too much should be read into this development. The 480ES is a product of the Dutch end of Volvo. Saloon developments will appear but the big Swedish Volvos will remain rear-wheel driven for the foreseeable future, as will the products of Mercedes-Benz and BMW.

Motoring enthusiasts often lament the alleged lack of character in modern cars—computers come up with similar-looking products when similar design requirements are fed into them. One small European hatchback does look very much like another, which probably matters little to buyers who seek reliability above all else.

Oddities survive among Europe's cars for historical reasons—the Mini, Citroen 2CV, Renault 4—but they are coming to the end of the road. The shape of their replacement can be seen in the new Citroen AX.

This lightweight supermini was designed by computers to be manufactured very cheaply by robots and combines reasonable performance with fuel economy that was inconceivable a few years ago.

With the collapse of oil prices, fuel economy has seemed to be a less urgent priority in Britain, but petrol in the UK is cheap by European standards and what goes down usually goes up again. The diesel car runs on fuel that costs less than petrol in most countries and gives anything from 20 to 40 per cent better miles-per-gallon figures, depending on operating conditions.

Fiat, which once turned its nose up at the very thought of a diesel car, now boasts of being Europe's biggest manufacturer of them.

Every volume maker in Europe has diesels in its range except the UK's Rover Group but that will change in the very near future. Some Rover passenger cars, the Montego included, will use a direct-injection 2-litre diesel already offered in the Maestro van.

The engine, the first of its kind in a car-derived van, promises to bring outstanding fuel economy, even by current diesel standards. Combustion noise is greatly reduced, especially after cold starting, and servicing intervals are the same as for a petrol engine.

A joint development by Rover Group and Perkins Engines, the 2-litre direct-injection diesel is seen as a leap forward in technology putting Austin Rover ahead of its competitors in cars as well as light commercial vehicles.

Stuart Marshall

New technology in the car

Customers draw line at bossy dashboards

GENERAL MOTORS chairman, Mr Roger Smith, observed a couple of years ago that the biggest problem facing car manufacturers in relation to new technology would be not so much how to develop more, but how to apply it sensibly, and in a way attractive to customers.

His point was being made even while he spoke: out on the highways, growing ranks of apoplectic motorists were already committing electronic manslaughter of their in-car "voice" computers.

It was not just that the things sometimes offered entirely erroneous opinions and then refused to modify them—for example insisting interminably that the handbrake had been left on when, patently, it had not. It was more that average motorists, once their initial gee-whizz reactions wore off, concluded that they wanted to be informed by a car's instruments, not lectured.

No less frowned-upon have become some of the more extrovert electronic dashboards launched in the early 1980s. Austin Rover, for one has abandoned "Christmas tree" light-emitting diodes in favour of conventional, analogue displays—even though the calibration and read-out functions are performed electronically.

There are just two examples of the lesson already being learned by manufacturers—that innovation for innovation's sake will be spurned in the market-place if it is adjudged to be gimmicky and of no real, demonstrable benefit.

However, a great deal of the technology introduced into cars during the past 12 months, and planned for the near future, is serving to produce self-evidently safer cars (though certainly not cheaper ones). Cars so equipped are making fewer demands on their drivers—and increasingly are capable of protecting drivers from the consequences of foolhardiness, impatience and other human failings.

The new BMW 7 series saloons launched at the Paris Motor Show, for example, now offer not just anti-skid electronic braking but "anti-slip control." This system taps into the anti-skid braking system's sensors to detect incipient wheelspin under acceleration, and electronically commands the engine to throttle back momentarily to prevent a skid developing. Mercedes this year has also launched traction control systems.

To combine these systems with four-wheel-drive is to provide, in conjunction with the latest-generation high performance radial tyres, a level of safety on wet, snow-covered or icy roads undreamed of until very recently.

Yet, at least four more significant developments are in the pipeline (being developed by different manufacturers) which promise further to enhance a vehicle's primary safety, or the ability to avoid having an accident in the first place.

These include:

- Four-wheel steering, to improve directional response and control.
- "Active" suspension, in which the ride and handling qualities of the car are programmable and in which the normal springs and shock absorbers are replaced by vertical hydraulic rams under electronic control. (The system can identify road surface irregularities and damp them out individually; maintain the car in an ideal attitude to the road, for example by keeping it on an even keel, rather than rolling, through a corner or when accelerating or braking; compensate for heavy loading, or provide a range of sporting or comfort ride settings.)
- "Active" steering, in which the steering wheel itself is not mechanically connected to the steered wheels. Instead, the driver's commands via the steering wheel are mediated by sensors and computer, which themselves decide how much turn to apply.

The value of this system is that, if the car were to skid unexpectedly—say on an icy road—it would prevent any panic over-correction by the driver being communicated to the wheels. They would be turned into the skid by the system by a just-sufficient amount for the car to be brought back under control.

- Sonar or radar-based anti-collision systems, in which the car automatically would be kept at a safe distance from the vehicle in front.

Even these systems could be proved, by the mid-1990s, to have been only intermediate technologies.

For example, Mr Tony Rudd, managing director of Lotus Engineering, envisages a much more sophisticated four-wheel steering system than the Hicas unit developed by Nissan of Japan. The Nissan system (Hicas stands for high-capacity actively-controlled suspension) steers the rear wheels very slightly in the same direction as the fronts when the vehicle corners. In the Lotus system, each wheel would be under independent "active" control.

Eventually, Mr Rudd believes, a car could emerge in which the passenger capsule is suspended independently from the drivetrain and chassis. Lotus has already demonstrated this technology with a grand prix racing car.

"Active" suspension, at least, is about to become a commercial technology of the present. Mr John Grettenberge, general manager of General Motors Cadillac division, revealed in September that an active system forms part of the specification of the Allante, a new personal car developed with Pininfarina which is to go on sale early next year with an expected price of about $50,000 and intended as a direct challenger to Mercedes and other top-market coupés.

GM was Lotus' biggest customer for research and development engineering services for several years before its takeover over the UK company in February. And as the world's largest vehicle producer, GM is perhaps best placed to provide the large economies of scale needed to bring the unit price of "active" systems down to the point where they may, eventually, be used in mass-market cars.

Four-wheel-drive systems, meanwhile, are becoming almost commonplace, with Lancia, Volkswagen and Mazda among those announcing systems for the lower-medium hatchbacks and saloons.

One of the most significant technology advances of the year, however, materialised in early spring with their launch of the stop control system of Ford's Escort and Orion range. Lucas Girling developed it jointly with Ford, and it has introduced anti-skid braking to the mass market. Standard on Ford's Escort RS Turbo, it is a £300 option on the rest of the range.

Ford has sole use of it until the end of this year, after which other manufacturers are expected to announce it for their cars, with the resultant higher production volumes promising to lower the cost further still.

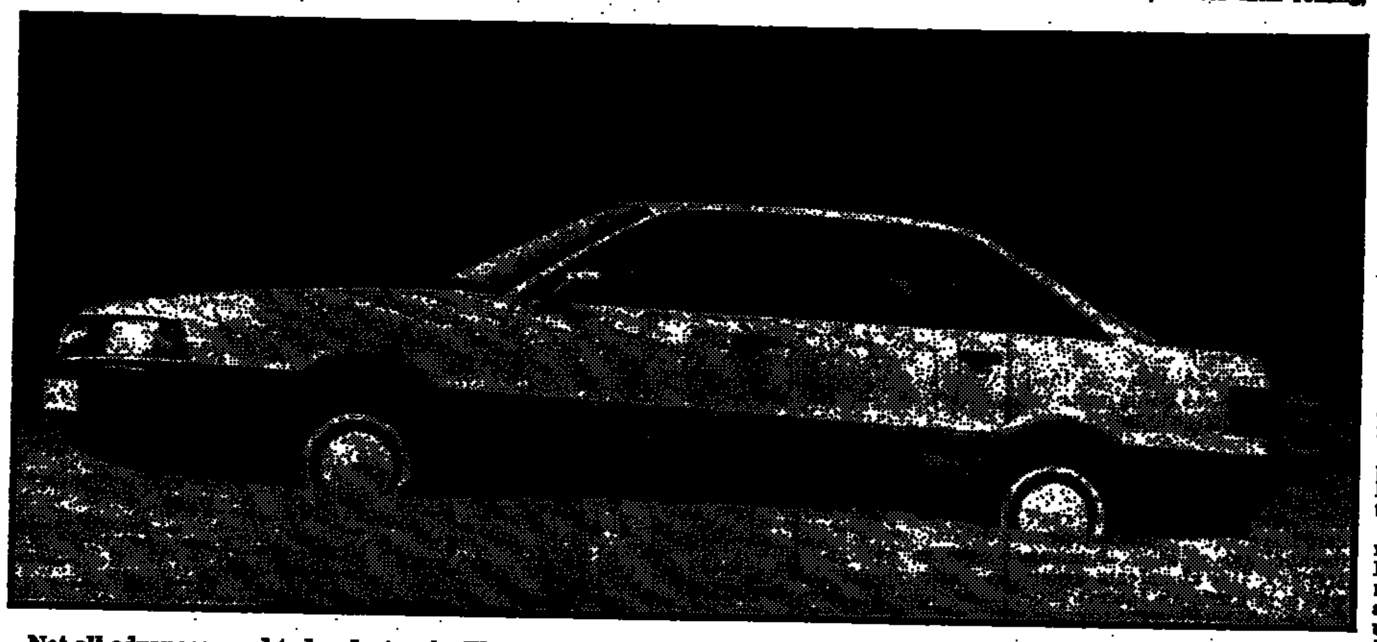
In the meantime, Audi has demonstrated that there is still room in the motor industry for strictly mechanical-based innovation.

The new Audi 80 has an optional safety system called Procon-Ten. It has two steel cables attached to the inertia reels of the front seat belts, and a further cable to the telescopable steering column. The cabling passes around pulleys mounted in the front quarters of the car, before being led and attached to the engine block.

In the event of a severe frontal collision (which account for most serious or fatal injuries) the engine will be pushed back into the body. As this takes place, the cables connected to the steering column and seatbelts are pulled forward. Thus the occupants are locked tightly in their seats, and the steering wheel withdrawn simultaneously out of harm's way.

John Griffiths

Ford's concept vehicle, the Vignale Gilda, is a two-seat drophead sports car which takes advantage of a multi-beam headlight system to achieve a low windscreen base and front-end height. The company's Turin design centre collaborated in the work. The significant techological advance Ford has introduced to the mass car market is anti-skid braking and it seems likely that the Lucas-Girling system will be taken up by other manufacturers.



Not all advances need to be electronic. The Audi 80 incorporates a simple mechanical system using steel cables which automatically yank the engine sideways in the event of a severe head-on collision

On the road of change

Continued from Page 1

North America look a much more sensible proposition.

However, no-one disputes that the 2.3m of new annual capacity will create a tremendous upheaval in the US because the Japanese appear to have no intention of cutting car imports substantially to compensate or to close capacity in Japan.

US producers are expected to give way instead. Indeed, Mr Lloyd Reuss, head of GMs North American car division, admitted recently that his company might have to close at least three assembly plants because of the new competition.

The new Japanese factories will produce cars with a 50 per cent North American content by ex-factory value which Ford estimates is 20 per cent of the value of the car itself—leaving 80 per cent to be imported from Japan.

There are also 300 Japanese component producers ready to follow the car makers into North America while the US domestic companies are increasing their purchases from the Far East, both of cars and components.

Japan's component exports to the US have grown from $480m in 1980 to $2.8bn last year because the American carmakers discovered that suppliers accounted for much of the Japanese competitive edge.

One projection, from Hueristic Associates in a study commissioned by the US Embassy in Tokyo, suggests that by 1989 the domestic content of all cars built in the US will be down to 42 per cent while the Japanese content will rise to 50 per cent. Eight per cent would come from other foreign sources.

The threat to the US component suppliers does not end there. Apart from continuing to develop Mexico as a low-cost supplier, "outsourcing" of cars and components by the US producers from South Korea and Taiwan will develop rapidly and give those countries' motor industries a great deal of help.

For example, Ford recently paid $30m for a 10 per cent shareholding in Kia of South Korea to show how serious was its intention of drawing that company into its global strategy.

Ford then followed up in July by opening a Korean branch office of Ford International Business Development in Seoul. The office "will assist in Ford's worldwide operations by developing sources for automotive components in South Korea and working to identify opportunities for joint venture and co-operation with Korean companies."

GM is even helping to develop a component supply industry in Egypt which will export its products mainly to Europe. As Mr Robert Stempel, the executive vice-president in charge of GMs overseas operations admits: "This looks more sensible when you are looking at it from the US than from Europe."

Ironically, some developing countries in which the multinationals invested a great deal of time and money in the past in the hope of big rewards later are being downgraded in the new strategic plans.

Brazil is the prime example. Volkswagen and Ford are having talks about merging their production operations there in a scheme which might spread to other South American countries, particularly Argentina.

Asked why VW was engaged in discussions about the Brazilian operations—its biggest subsidiary outside West Germany—Mr Werner Schmidt, the Volkswagen-Audi group's world-wide sales director, commented: "We think it will take so long for the Brazilian economy to recover it is best not to wait another 20 years before taking some action."

The implication is that the developing world no longer offers the opportunity for spectacular growth in car sales it once appeared to have.

Demand in the industrialised world is growing only slowly so, as Mr Eberhard von Kuenheim, chairman of BMW, remarks: "The time of big increases in production and profit is at an end."

Kenneth Gooding

World car production

(000s)	1981	1985	1986	1987	1990
WESTERN EUROPE					
West Germany	3,578	4,167	4,230	4,155	4,310
France	2,612	2,632	2,742	2,913	2,999
United Kingdom	955	1,048	1,036	1,029	1,143
Italy	1,257	1,389	1,507	1,498	1,574
Spain	855	1,230	1,253	1,281	1,434
Netherlands	78	108	114	140	143
Belgium	201	229	207	248	250
Total 7 EEC	9,536	10,803	11,090	11,264	11,853
Sweden	277	401	429	448	482
TOTAL WESTERN EUROPE	9,813	11,204	11,518	11,711	12,335
United States	6,280	8,182	7,838	7,223	7,734
Canada	744	1,076	1,095	934	1,015
TOTAL NORTH AMERICAN	7,024	9,259	8,933	8,157	8,749
Japan	6,974	7,647	7,620	7,689	8,081
Australia	358	398	386	373	368
New Zealand	95	70	66	72	78
Taiwan	138	138	179	221	302
South Korea	69	264	392	540	853
Peninsular Malaysia	86	67	74	80	122
South Africa	322	197	172	182	198
Mexico	355	297	215	275	417
Brazil	586	759	919	937	1,204
Argentina	144	118	118	127	177

Source: DRI Europe

World's best selling cars in 1985*

	Sales
1 Ford Escort	923,000
2 General Motors Ascona/Cavalier	883,000
3 Volkswagen Golf	778,000
4 Toyota Corolla	732,000
5 Fiat Uno	587,000
6 General Motors Kadett/Astra	586,000

(*Totals include similar vehicles made under different nameplates. GM Ascona/Cavalier also includes the Monza in Brazil and the Camira in Australia. The VW Golf includes the Caribe in Mexico.)

Source: Ford

Exhaust emissions

Rival technologies could merge

THE DEBATE over how best to achieve, technologically, the reduction of car exhaust emissions in Europe has usually been seen in terms of two supposedly rival approaches.

One is the technology which has been in use for all new car production in the US for 12 years: the catalytic converter.

The other is the lean-burn engine — a misleadingly simple term which implies that there is a common solution to making engines burn the leanest possible fuel/air mixtures.

Proponents of each system have accepted that there is room for the technologies to merge at certain points. For example, that some cars of between 1.4 and 2 litres could meet planned tighter European Community standards by using a combination of lean-burn engineering and relatively simple oxidation catalyst to achieve the desired effect.

Until recently, however, there appeared to be a point at which there was a definite parting of the ways.

Full three-way exhaust catalysts, as used in the US and Japan, work by means of a sensor in the exhaust system. This signals the composition of exhaust gases to the engine's fuel management system, which constantly adjusts the air/fuel mixture to the chemically-ideal "stoichiometric" ratio of about 14.7:1.

The exhaust emissions of nitrogen oxides, hyrocarbons and carbon monoxide are then coped with simultaneousy — and extremely effectively — by the catalyst's precious metals coatings of rhodium and platinum. Further down the exhaust system, an oxdiation catalyst copes with any remaining emissions.

The seemingly obvious problem is that by depending for its effective working on a constant air/fuel ratio, the three-way "cat" system would appear to rule out the significant improvements in fuel economy which the lean burn engine offers.

Toyota, Ford, Volkswagen and others are already running prototype engines in which the air/fuel ratio over at least some parts of the operating cycle can be as high at 22:1. As manufacturers build up databanks on their lean-burn technology, so it can be expected that reduced emissions will proceed in tandem with increased fuel economy.

This must be considered the ideal route to pursue, for despite the present glut, oil remains a finite resource. However, even its proponents accept that there are two main snags with an exclusively lean-burn approach.

One is that lean-burn characteristics need to be engineered into every engine type. There is no easy, generic solution. Combustion chamber shapes, valves, ports, pistons — endless permutations are possible, and require a great deal of computer modelling in the hope or arriving at acceptable solutions.

The other is that almost irrespective of how sophisticated lean burn engines become, they simply cannot match the catalyst in the efficiency with which they dispose of pollutants. And there are some applications — for example, a small engine in a relatively heavy vehicle — where there would appear to be no hope of meeting planned regulations without at least an oxidation catalyst in the exhaust as well.

It now appears, however, that the large strides being made in electronic engine systems management technology are allowing even the three-way catalyst and lean-burn technologies to merge.

Dr Gary Acres, director of corporate development (technology) at Johnson Matthey, the chemicals group which is Europe's largest producer of the catalyst cores, points out that the level of emissions produced by an engine varies according to its speed of operations and the load being placed upon it.

Emissions can be at their heaviest, for example, under acceleration when laden. Equally, under light load, emisaions are reduced. It is in the latter condition that the fuel economy potential of the lean-burn engine can most profitably be exploited, yet which employment of a three-way catalyst system would seemingly prevent because of its reliance on the stoichiometric air/fuel ratio.

That is no longer the case, says Dr Acres. In those conditions, the electronic fuel management system can be programmed simply to ignore the protests coming from the sensor that the stoichiometric ratio is not being adhered to, because the engine is not producing an unacceptable level of pollutants. "Ergo, we have the best of both worlds; exhaust emissions fully compliant with the planned European standards, and without the lean-burn avenue to better fuel economy being blocked off," says Dr Acres.

Not surprisingly, Johnson Mathey, like other members of the Europe-wide Automotive Emissions Control by Catalyst (AECC) group, has also been lobbying hard to debunk some of the more widely-heard scare stories about catalysts, such as reduced performance, higher fuel consumption and heavy additional cost.

Without question, performance and economy was adversely affected in the early days of the technology, as much evidence of its application in the US shows.

More recently, however, catalyst-equipped cars from manufacturers such as Volkswagen, Mercedes and Porsche in West Germany, have demonstrated that there is now a negligible differece between cat and non-cat cars on either front. Indeed, Porsche quotes identical power outputs for the two types of car.

Tests by the West German ADAC standards organisation of 22 pairs of "cat" and non-"cat" cars showed average top speed lowered by only 2.2 mph and an average increase in standstill to 100 kph acceleration times of 0.4 seconds.

Even these differences are likely to all but vanish when higher (95) octane unleaded fuel becomes more widely available in Europe over the next few years (current unleaded fuel is mainly of 92 octane).

Another drawback of catalyst-equipped cars has been the need to run on unleaded fuel, as lead "poisons" the precious metals catalyst, rendering it ineffective.

But even in the UK, seen by some of its EEC partners as a notable laggard in tackling the emissions problems, unleaded fuel is becoming available. Several hundred stations now offer it, and limited but national availability is likely well before the end of next year.

The AECC is catagoric in its rejection of other catalyst criticisms. They include:

That the cost to the car buyer of a full three-way catalyst will be £1,000-£1,200. The average price is demonstrably less than £500, the AEC insists;

That fuel consumption will prove to be worse. The AECC says that in the three categories of cars to be covered by the EEC legislation, those over 2 litres will use about 4 per cent more fuel; those of 1.4 to 2 litres about 1 per cent more, as will cars in the under 1.4 litre sector. All these figures, however, are based on 95 octane fuel;

That even one accidental filling of a "cat" car's tank with leaded petrol would destroy the catalyst. This is nonsense, the AECC insists. Two to three tanks full in succession would be needed to stop the system working, and as long as unleaded fuel was used thereafter, the catalyst would recover.

West Germany, under the pressure of severe environmental damage to its treasured forests, has been the EEC's pace-setter in developing the environmentally "clean" car market.

Tax concessions to defray the extra costs of such cars have helped, but it seems that few West Germans are finding difficulty in coming to terms with the catalysts. In the space of a year, cars so equipped have come to account for one in five West German sales, and the percentage continues to rise.

For manufacturers, it now seems certain that catalyst and lean-burn technologies will be developed in parallel.

The irony is that, having been originally spurted into action by the threat of EEC legislation, it is now the manufacturers themselves who are making all the running.

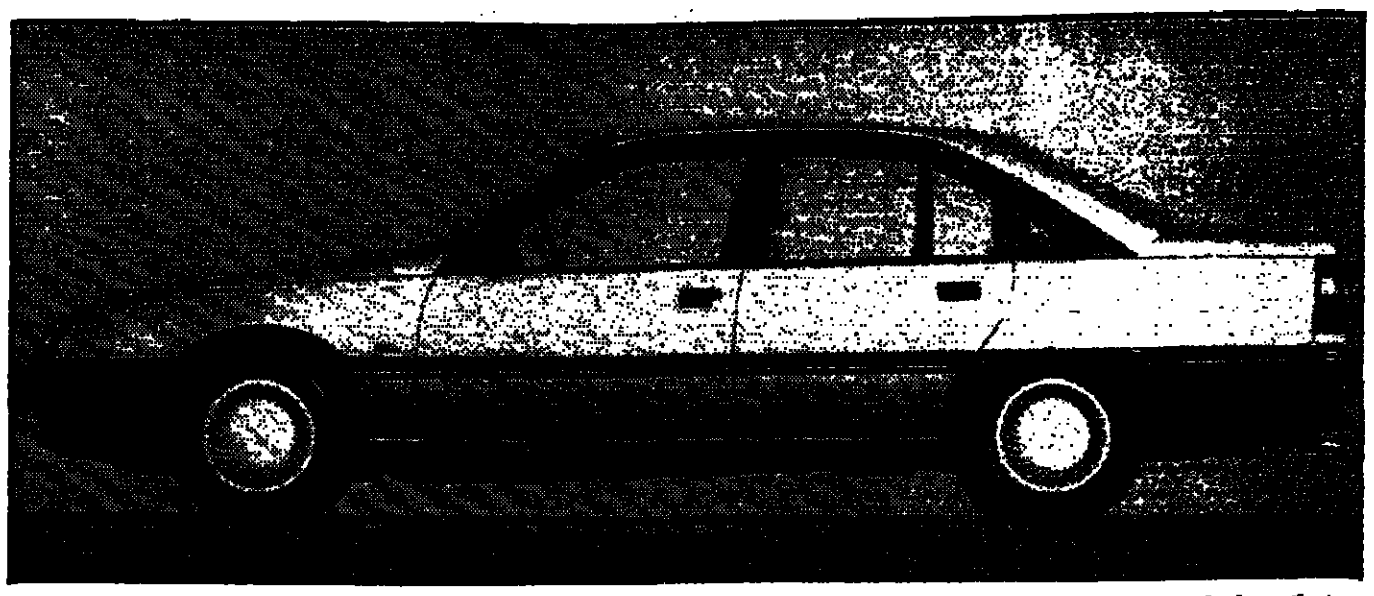
Nearly 18 months after the much-vaunted EEC "compromise" setting out a timetable and standards for reduced emissions, delays and disagreements have left unadopted the European Commission's draft directive actually to implement the standards.

Plans for tighter regulations governing particle emissions by diesel engines, and hoped to become effective at the start of 1988, also remain unadopted.

The main reason for the hold-up is objections from Denmark thatthe standards are not strict enough. But it is hard to envisage that, as the various deadlines draw closer, the differences will remain unresolved. Few expect the present impasse to continue beyond next spring or early summer.

As for the standards themselves, the entire industry accepts that full three-way catalysts will have to be used on over 2 litre cars. Some 1.4-2 litre cars may be able to use just lean-burn engines, like a "third-generation" engine Ford is to start building at Dagenham next year. Other 1.4-2 litre cars may have to use an oxidation catalyst as well. The standards for under 1.4 litres are considerably less strict (though subject to possible revision) and almost certainly can be met with lean-burn techniques alone.

John Griffiths



The Opel Omega. It has been designed to meet any standard on exhaust emissions that is likely to be introduced by the European countries. The different approaches to dealing with emissions are producing a variety of solutions—among them the oxidation catalyst with exhaust gas recirculation pictured below.